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

Form 40-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended **December 31, 2006** 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, 6 th Floor, Toronto, Ontario, Canada M5H 1J9 (416) 979-4800
(Address and telephone number of Registrant's principal executive offices)

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

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

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

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

Not Applicable
(Title of Class)

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

Not Applicable
(Title of Class)

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

þ Annual information form þ Audited annual financial statements

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

Common Shares	**571,843,922**
Class A Preferred Shares Series 1	**16,000,000**
Class A Preferred Shares Series 2	**13,000,000**
Class A Preferred Shares Series 3	**10,000,000**
Class A Preferred Shares Series 4	**12,000,000**

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

Disclosure Controls and Procedures

The information provided under the heading "Controls and procedures" in the Company's Management's Discussion and Analysis for the year ended December 31, 2006, attached hereto as Exhibit 2, is incorporated by reference herein.

Management's Annual Report on Internal Control Over Financial Reporting

The information provided under the heading "Controls and procedures" in the Company's Management's Discussion and Analysis for the year ended December 31, 2006, attached hereto as Exhibit 2, and the "Management's Annual Report on Internal Control over Financial Reporting" included in the Company's Annual Consolidated Financial Statements for the year ended December 31, 2006, attached hereto as Exhibit 1, is incorporated by reference herein.

Attestation Report of the Registered Public Accounting Firm

The " Report of Independent Registered Chartered Accountants" included in the Company's Annual Consolidated Financial Statements for the year ended December 31, 2006, attached hereto as Exhibit 1, is incorporated by reference herein.

Changes in Internal Control Over Financial Reporting

The information provided under the heading "Controls and procedures" in the Company's Management's Discussion and Analysis for the year ended December 31, 2006, attached hereto as Exhibit 2, is incorporated by reference herein.

Identification of Audit Committee

The information provided under the heading "Directors and executive officers — Audit and Conduct Review Committee" in the Company's Annual Information Form for the year ended December 31, 2006, attached hereto as Exhibit 3, is incorporated by reference herein.

Audit Committee Financial Expert

The information provided under the heading “Directors and executive officers — Audit and Conduct Review Committee” in the Company’s Annual Information Form for the year ended December 31, 2006, attached hereto as Exhibit 3, is incorporated by reference herein.

Code of Ethics

The information provided under the heading “Code of ethics” in the Company’s Annual Information Form for the year ended December 31, 2006, attached hereto as Exhibit 3, is incorporated by reference herein. A copy of the Sun Life Financial Code of Business Conduct is attached hereto as Exhibit 4.

In October 2006, the Sun Life Financial Code of Business Conduct was updated: (a) to amend the Mission, Vision and Values section; (b) to include new provisions related to anti-money laundering/ anti-terrorist financing and fraud reporting; (c) to clarify that service on certain boards do not require pre-clearance; (d) to expand the section on gifts, favours, benefits or entertainment; (e) to clarify the Company’s policy on personal relationships to prevent conflicts of interest; (f) to add examples to the section on the use of technology; (g) to add a section on the handling of regulatory and law enforcement investigations; and (h) to make format changes and include statements of broad principles on most pages.

Principal Accountant Fees and Services

The information provided under the heading “Directors and executive officers — Principal accountant fees and services” in the Company’s Annual Information Form for the year ended December 31, 2006, attached hereto as Exhibit 3, is incorporated by reference herein. None of the services described under the heading “Directors and officers - Principal accountants fees and services” in the Company’s Annual Information Form for the year ended December 31, 2006, attached hereto as Exhibit 3, were approved by the Audit and Conduct Review Committee of the Company’s Board of Directors pursuant to the de minimis exception in paragraph (c)(7)(i)(C) of SEC Rule 2-01 of Regulation S-X.

Off-Balance Sheet Arrangements

The information provided under the heading “Financial position and liquidity — Off-balance sheet arrangements” in the Company’s Management’s Discussion and Analysis for the year ended December 31, 2006, attached hereto as Exhibit 2 hereto, is incorporated by reference herein.

Tabular Disclosure of Contractual Obligations

The information provided under the heading “Financial position and liquidity — Contractual obligations” in the Company’s Management’s Discussion and Analysis for the year ended December 31, 2006, attached hereto as Exhibit 2, 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.

Sun Life Financial Inc

By: /S/ "Thomas A. Bogart"
Thomas A. Bogart
Executive Vice-President and
Chief Legal Officer

Dated: February 8, 2007

EXHIBITS:

1. Consolidated Financial Statement for the Year Ended December 31, 2006
2. Annual Management's Discussion and Analysis for the year ended December 31, 2006
3. Annual Information Form for the year ended December 31, 2006
4. Sun Life Financial Code of Business Conduct
5. Consent of Independent Registered Chartered Accountants.
6. Comments by Auditors on Canada - United States of America Reporting Difference
7. Consent of Appointed Actuary
8. Certifications required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of United States Code, pursuant to Section 906 of the *Sarbanes-Oxley Act* of 2002
9. Certifications required by Rule 13a-14(a) or Rule 15d-14(a), pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 1

Consolidated Financial Statements

Sun Life Financial Inc.

For the Year Ended December 31, 2006

February 8, 2007



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Financial Reporting Responsibilities

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

The Board of Directors (Board) oversees management's responsibilities for financial reporting. An Audit and Conduct Review Committee of non-management directors is appointed by the Board to review the consolidated financial statements and report to the Board prior to their approval of the consolidated financial statements for issuance to shareholders. Other key responsibilities of the Audit and Conduct Review Committee include reviewing the Company's existing internal control procedures and planned revisions to those procedures, and advising the Board on auditing matters and financial reporting issues.

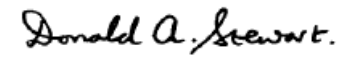
Management is also responsible for maintaining systems of internal control that provide reasonable assurance that financial information is reliable, that all financial transactions are properly authorized, that assets are safeguarded, and that Sun Life Financial Inc. and its subsidiaries, collectively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

The Audit and Conduct Review 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 and Conduct Review 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 10 on page 33. The report of the Appointed Actuary appears on page 68.

The Company's external auditors, Deloitte & Touche LLP, Independent Registered Chartered Accountants, conduct an independent audit of the consolidated financial statements and meet separately with both management and the Audit and Conduct Review Committee to discuss the results of their audit. The auditors' report to the Board and shareholders appears on page 69.



Donald A. Stewart
Chief Executive Officer



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

Toronto, February 8, 2007

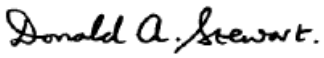
Management's Report on Internal Control over Financial Reporting

Management of Sun Life Financial Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer (CEO) and the Executive Vice President and Chief Financial Officer (CFO) and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting, as defined in Rule 13a-15 under the *United States Securities and Exchange Act* of 1934, as of December 31, 2006 based on the framework and criteria established in *Internal Control—Integrated Framework,* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that internal control over financial reporting was effective as of December 31, 2006.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, has been audited by Deloitte & Touche LLP, the Company's Independent Registered Chartered Accountants, who also audited the Company's Consolidated Financial Statements for the year ended December 31, 2006. As stated in the Report of Independent Registered Chartered Accountants, they have expressed an unqualified opinion on management's assessment of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2006.



Donald A. Stewart
Chief Executive Officer



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

Toronto, February 8, 2007

Consolidated Statements of Operations

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

	2006	2005	2004
REVENUE			
Premium income:			
Annuities	**$ 5,380**	$ 4,556	$ 4,588
Life insurance	**6,168**	5,683	5,948
Health insurance	**3,061**	2,701	2,367
	14,609	12,940	12,903
Net investment income *(Note 6)*	**6,664**	6,079	5,924
Fee income	**3,014**	2,899	2,903
	24,287	21,918	21,730
POLICY BENEFITS AND EXPENSES			
Payments to policyholders, beneficiaries and depositors:			
Maturities and surrenders	**5,707**	5,922	5,726
Annuity payments	**1,388**	1,473	1,495
Death and disability benefits	**2,438**	2,397	2,458
Health benefits	**2,253**	1,885	1,737
Policyholder dividends and interest on claims and deposits	**1,109**	1,125	1,116
	12,895	12,802	12,532
Net transfers to segregated funds	**835**	704	582
Increase in actuarial liabilities *(Note 10)*	**2,525**	872	1,425
Commissions	**1,916**	1,726	1,916
Operating expenses *(Note 16)*	**3,028**	2,921	2,831
Premium taxes	**205**	190	182
Interest expense *(Notes 11, 12 and 13)*	**323**	273	278
	21,727	19,488	19,746
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	**2,560**	2,430	1,984
Income taxes expense *(Note 19)*	**389**	531	263
Non-controlling interests in net income of subsidiaries *(Note 14)*	**27**	23	28
TOTAL NET INCOME	**2,144**	1,876	1,693
Less: Participating policyholders' net income	**7**	9	13
SHAREHOLDERS' NET INCOME	**2,137**	1,867	1,680
Less: Preferred shareholder dividends	**48**	24	—
COMMON SHAREHOLDERS' NET INCOME	**$ 2,089**	$ 1,843	$ 1,680
Average exchange rates:			
U.S. dollars	***1.13***	*1.21*	*1.30*
U.K. pounds	***2.09***	*2.21*	*2.38*
Earnings per share *(Note 17)*			
Basic	**$ 3.62**	$ 3.14	$ 2.81
Diluted	**$ 3.58**	$ 3.12	$ 2.79
Weighted average shares outstanding in millions *(Note 17)*			
Basic	**577**	587	599
Diluted	**580**	590	602

The attached notes form part of these consolidated financial statements.

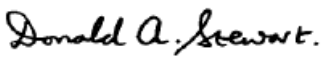
Consolidated Balance Sheets

AS AT DECEMBER 31 (in millions of Canadian dollars)

	2006	2005
ASSETS		
Bonds *(Note 6)*	**$ 69,230**	$ 66,154
Mortgages *(Note 6)*	**15,993**	14,561
Stocks *(Note 6)*	**4,899**	3,856
Real estate *(Note 6)*	**3,825**	3,241
Cash, cash equivalents and short-term securities	**6,239**	5,091
Policy loans and other invested assets	**6,013**	5,689
Invested assets	**106,199**	98,592
Goodwill *(Note 8)*	**5,981**	5,963
Intangible assets *(Note 8)*	**777**	801
Other assets *(Note 9)*	**4,874**	5,510
Total general fund assets	**$ 117,831**	$ 110,866
Segregated funds net assets	**$ 70,789**	$ 60,984
LIABILITIES AND EQUITY		
Actuarial liabilities and other policy liabilities *(Note 10)*	**$ 81,036**	$ 77,489
Amounts on deposit	**3,599**	3,382
Deferred net realized gains *(Note 6)*	**4,152**	3,859
Senior debentures *(Note 11)*	**3,491**	2,492
Other liabilities *(Note 12)*	**6,834**	6,592
Total general fund liabilities	**99,112**	93,814
Subordinated debt *(Note 13)*	**1,456**	1,456
Non-controlling interests in subsidiaries *(Note 14)*	**79**	50
Total equity	**17,184**	15,546
Total general fund liabilities and equity	**$ 117,831**	$ 110,866
Segregated funds contract liabilities	**$ 70,789**	$ 60,984
December 31 exchange rates:		
U.S. dollars	***1.17***	*1.17*
U.K. pounds	***2.28***	*2.00*

The attached notes form part of these consolidated financial statements.

Approved on behalf of the Board of Directors,



Donald A. Stewart
Chief Executive Officer



Krystyna T. Hoeg
Director

Consolidated Statements of Equity

YEARS ENDED DECEMBER 31 (in millions of Canadian dollars)

	PARTICIPATING POLICYHOLDERS	SHAREHOLDERS	2006	2005	2004
PREFERRED SHARES					
Balance, beginning of year	**$ —**	**$ 712**	**$ 712**	$ —	$ —
Preferred shares issued *(Note 15)*	**—**	**550**	**550**	725	—
Issuance costs, net of taxes *(Note 15)*	**—**	**(12)**	**(12)**	(13)	—
Balance, end of year	**—**	**1,250**	**1,250**	712	—
COMMON SHARES					
Balance, beginning of year	**—**	**7,173**	**7,173**	7,238	7,289
Stock options exercised *(Note 18)*	**—**	**73**	**73**	99	75
Common shares purchased for cancellation *(Note 15)*	**—**	**(164)**	**(164)**	(164)	(126)
Balance, end of year	**—**	**7,082**	**7,082**	7,173	7,238
CONTRIBUTED SURPLUS					
Balance, beginning of year	**—**	**66**	**66**	70	76
Stock-based compensation *(Note 18)*	**—**	**18**	**18**	17	11
Stock options exercised *(Notes 15 and 18)*	**—**	**(12)**	**(12)**	(21)	(17)
Balance, end of year	**—**	**72**	**72**	66	70
RETAINED EARNINGS					
Balance, beginning of year	**94**	**9,001**	**9,095**	8,204	7,288
Net income	**7**	**2,137**	**2,144**	1,876	1,693
Dividends on common shares	**—**	**(663)**	**(663)**	(581)	(515)
Dividends on preferred shares	**—**	**(48)**	**(48)**	(24)	—
Common shares purchased for cancellation *(Note 15)*	**—**	**(411)**	**(411)**	(380)	(262)
Balance, end of year	**101**	**10,016**	**10,117**	9,095	8,204
CURRENCY TRANSLATION ACCOUNT					
Balance, beginning of year	**(9)**	**(1,491)**	**(1,500)**	(1,097)	(673)
Net adjustment for foreign exchange gain *(Note 22)*	**—**	**(4)**	**(4)**	(22)	—
Changes for the year	**—**	**167**	**167**	(381)	(424)
Balance, end of year	**(9)**	**(1,328)**	**(1,337)**	(1,500)	(1,097)
Total equity	**$ 92**	**$ 17,092**	**$17,184**	$15,546	$14,415

The attached notes form part of these consolidated financial statements.

Consolidated Statements of Cash Flows

YEARS ENDED DECEMBER 31 (in millions of Canadian dollars)

	2006	2005	2004
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Total net income	**$ 2,144**	$ 1,876	$ 1,693
Items not affecting cash:			
Increase in actuarial and other policy-related liabilities	**2,538**	802	1,205
Amortization of:			
Net deferred realized and unrealized gains on investments	**(751)**	(632)	(498)
Deferred acquisition costs and intangible assets	**130**	160	201
Loss on sale of equity investment *(Note 3)*	**—**	43	—
(Gain) loss on foreign exchange *(Note 22)*	**(4)**	(74)	—
Future income taxes	**(335)**	77	232
Provisions for losses (recoveries) on investments	**(10)**	(47)	21
Stock-based compensation *(Note 18)*	**80**	68	41
Other changes in other assets and liabilities	**698**	559	114
New mutual fund business acquisition costs capitalized	**(66)**	(92)	(84)
Redemption fees of mutual funds	**45**	37	65
Net cash provided by operating activities	**4,469**	2,777	2,990
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES			
Debentures and borrowed funds	**1,028**	516	10
Issuance of preferred shares *(Note 15)*	**550**	725	—
Payments to underwriters *(Note 15)*	**(18)**	(20)	—
Redemption of subordinated debt *(Note 13)*	**—**	—	(267)
Issuance of common shares on exercise of stock options *(Note 15)*	**61**	78	58
Common shares purchased for cancellation *(Note 15)*	**(575)**	(544)	(388)
Dividends paid on common shares	**(633)**	(450)	(515)
Dividends paid on preferred shares	**(57)**	(15)	—
Net cash provided by (used in) financing activities	**356**	290	(1,102)
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES			
Sales, maturities and repayments of:			
Bonds	**29,644**	27,508	35,972
Mortgages	**2,590**	1,912	2,529
Stocks	**1,572**	1,891	1,422
Real estate	**204**	243	233
Purchases of:			
Bonds	**(31,104)**	(30,135)	(36,087)
Mortgages	**(3,938)**	(2,774)	(3,111)
Stocks	**(2,203)**	(1,736)	(1,374)
Real estate	**(523)**	(294)	(274)
Policy loans	**(87)**	(77)	(33)
Short-term securities	**1,120**	(58)	(454)
Other investments	**78**	52	(48)
Acquisition, net of cash acquired *(Note 3)*	**—**	(486)	—
Disposal, net of cash disposed of *(Note 3)*	**—**	130	—
Redemption of preferred shares of subsidiary *(Note 14)*	**—**	(150)	—
Net cash used in investing activities	**(2,647)**	(3,974)	(1,225)
Changes due to fluctuations in exchange rates	**18**	(101)	(90)
Increase (decrease) in cash and cash equivalents	**2,196**	(1,008)	573
Cash and cash equivalents, beginning of year	**2,740**	3,748	3,175
Cash and cash equivalents, end of year	**4,936**	2,740	3,748
Short-term securities, end of year	**1,303**	2,351	2,210
Cash, cash equivalents and short-term securities, end of year	**$ 6,239**	$ 5,091	$ 5,958
Supplementary Information			
Cash and cash equivalents:			
Cash	**$ 642**	$ 506	$ 384
Cash equivalents	**4,294**	2,234	3,364
	$ 4,936	$ 2,740	$ 3,748
Cash disbursements made for:			
Interest on borrowed funds, debentures and subordinated debt	**$ 303**	$ 268	$ 280
Income taxes, net of refunds	**$ 567**	$ 304	$ 265

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)

	2006	2005	2004
ADDITIONS TO SEGREGATED FUNDS			
Deposits:			
Annuities	**$ 7,444**	$ 6,788	$ 5,928
Life insurance	**1,309**	417	1,217
	8,753	7,205	7,145
Net transfers from general funds	**835**	704	582
Net realized and unrealized gains	**5,386**	3,971	3,804
Other investment income	**2,637**	1,826	1,500
	17,611	13,706	13,031
DEDUCTIONS FROM SEGREGATED FUNDS			
Payments to policyholders and their beneficiaries	**7,910**	7,219	8,050
Management fees	**747**	664	622
Taxes and other expenses	**137**	163	120
Effect of changes in currency exchange rates	**(988)**	1,772	1,761
	7,806	9,818	10,553
Net additions to segregated funds for the year	**9,805**	3,888	2,478
Acquisition *(Note 3)*	**—**	532	—
Segregated funds net assets, beginning of year	**60,984**	56,564	54,086
Segregated funds net assets, end of year	**$ 70,789**	$ 60,984	$ 56,564

Consolidated Statements of Segregated Funds Net Assets

AS AT DECEMBER 31 (in millions of Canadian dollars)

	2006	2005
ASSETS		
Segregated and mutual fund units	**$ 56,528**	$ 48,358
Stocks	**8,317**	7,262
Bonds	**5,823**	5,208
Cash, cash equivalents and short-term securities	**584**	945
Real estate	**215**	168
Mortgages	**42**	49
Other assets	**721**	1,289
	72,230	63,279
LIABILITIES	**1,441**	2,295
Net assets attributable to segregated funds policyholders	**$ 70,789**	$ 60,984

The attached notes form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

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

1. Accounting Policies

DESCRIPTION OF BUSINESS

Sun Life Financial Inc. is a publicly traded company and is the holding company of Sun Life Assurance Company of Canada (Sun Life Assurance) and Sun Life Financial Corp. On January 4, 2005, Sun Life Assurance completed a reorganization under which most of its asset management businesses in Canada and the U.S. were transferred to a newly incorporated subsidiary of Sun Life Financial Inc., Sun Life Financial Corp. Both Sun Life Financial Inc. and Sun Life Assurance are incorporated under the Insurance Companies Act of Canada, and are regulated by the Office of the Superintendent of Financial Institutions, Canada (OSFI). Sun Life Financial Inc. and its subsidiaries are collectively referred to as “Sun Life Financial” or “the Company”. The Company is an internationally diversified financial services organization providing savings, retirement and pension products, and life and health insurance to individuals and groups through its operations in Canada, the United States, the United Kingdom and Asia. The Company also operates mutual fund and investment management businesses, primarily in Canada, the United States and Asia.

BASIS OF PRESENTATION

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP).

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

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

Actual results could differ from those estimates.

A reconciliation of the impact on assets, liabilities, equity, comprehensive income and net income arising from differences between Canadian and U.S. GAAP is provided in Note 24.

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

BASIS OF CONSOLIDATION

The consolidated financial statements of the Company reflect the assets and liabilities and results of operations of all subsidiaries and variable interest entities in which the Company is the primary beneficiary after significant intercompany balances and transactions have been eliminated. The purchase method is used to account for subsidiaries with the difference between the acquisition cost of a subsidiary and the fair value of the subsidiary’s net identifiable assets acquired recorded as goodwill. The equity method is used to account for other entities over which the Company is able to exercise significant influence. Investments in these other entities are reported in other invested assets in the consolidated balance sheets with the Company’s share of earnings reported in net investment income in the consolidated statements of operations. The proportionate consolidation method is used to account for non-variable interest entity investments in which the Company exercises joint control, resulting in the consolidation of the Company’s proportionate share of assets, liabilities, income and expenses in the consolidated financial statements.

BONDS 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, and write-offs of specific investments net

1. Accounting Policies (Cont'd)

of recoveries, are charged against net investment income. Once the conditions causing the impairment improve and future payments are reasonably assured, allowances are reduced and the invested asset is no longer classified as impaired. Sectoral allowances are also established for classes of assets when there is concern about the ultimate collection of principal or interest. 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 aggregate value of the stock portfolio.

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, which include swaps, options, futures and forward contracts, 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 7. The accounting policies for the 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 term of the options.

Many of the foreign currency swaps and forwards are used in combination with other investments 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 with which the swaps and forwards are combined.

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

1. Accounting Policies (Cont'd)

Several derivative instruments are used for risk management purposes and are either accounted for using hedge accounting or are reported at their fair values on the balance sheet with changes in fair value reported in income. The derivatives that are accounted for using hedge accounting are documented at inception and effectiveness is assessed on a quarterly basis. The Company uses currency swaps and forwards to reduce foreign exchange fluctuations associated with certain foreign currency investment financing activities and investments in subsidiaries. The accounting for these contracts is consistent with the underlying investment. Changes in exchange gains or losses on these currency swaps and forwards are included in other assets or other liabilities and the currency translation account in equity, offsetting the respective exchange gains or losses arising from the conversion of the underlying investment. If the hedging relationship is terminated, amounts deferred in the currency translation account in equity continue to be deferred until there is a reduction in the Company's net investment in the hedged foreign operation resulting from a capital transaction, dilution or sale of all or part of the foreign operation. Equity forwards and swaps are used to hedge the variability in the cash flows associated with certain stock-based compensation plans described in Note 18. Certain equity forwards are accounted for using hedge accounting. A portion of the fair value of these forwards is recorded in other assets or other liabilities with the change in fair value reported in operating expenses, consistent with the accounting for the stock-based compensation liabilities. The remaining forwards and swaps are recorded in other invested assets or other liabilities at their fair values with changes in their fair values reported in net investment income. Certain cross currency interest rate swaps are designated as hedges of the foreign currency exposure associated with foreign currency bonds. The accounting for these swaps is consistent with the accounting for the foreign currency bonds. Changes in fair value of the swaps due to fluctuations in exchange rates is recorded to net investment income, consistent with the accounting for the exchange gains and losses recorded on the bonds. 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. These derivative instruments are recorded in other invested assets or other liabilities at their fair values with changes in fair value reported in net investment income.

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.

DEFERRED ACQUISITION COSTS

Deferred acquisition costs arising on mutual fund sales are amortized over the periods of the related sales charges, which range from four to six years. 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

Goodwill represents the excess of the cost of businesses acquired over the fair value of the net identifiable tangible and intangible assets and is not amortized. Goodwill is assessed for impairment annually by comparing the carrying values of the appropriate business segments, to their respective fair values. If any potential impairment is identified, it is quantified by comparing the carrying value of the respective goodwill to its fair value.

INTANGIBLE ASSETS

Identifiable intangible assets consist of finite-life and indefinite-life intangible assets. Finite-life intangible assets are amortized on a straight-line basis over varying periods of up to 40 years. Indefinite-life intangibles are not amortized and are assessed for impairment annually by comparing their carrying values to their fair values. If the carrying values of the indefinite-life intangibles exceed their fair values, these assets are considered impaired and a charge for impairment is recognized.

CAPITAL ASSETS

Furniture, computers, other equipment and leasehold improvements are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of these assets, which generally range from two to 10 years.

1. Accounting Policies (Cont'd)

LOANS SECURITIZATION

The Company 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 have been received in exchange. Gains or losses on these securitization transactions are included in deferred net realized gains, and are 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 flow 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. On a quarterly basis, the Company compares the carrying value of retained interests arising from securitizations to their fair values, determined based on discounted cash flows. If the carrying values of retained interests exceed their fair values, these assets are considered impaired and an impairment charge is recognized.

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 between general funds and segregated funds are included in net transfers to segregated funds on the consolidated statements of operations.

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

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 and the requirements of OSFI.

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.

1. Accounting Policies (Cont'd)

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.

A proportionate amount of the exchange gain or loss accumulated in the separate component of shareholders' equity is reflected in net income when there is a reduction in the Company's net investment in a foreign operation resulting from a capital transaction, dilution, or sale of all or part of the foreign operation.

PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

The Company sponsors non-contributory defined benefit pension plans for eligible qualifying employees. The defined benefit pension plans offer benefits based on length of service and final average earnings and certain plans offer some indexation of benefits. The specific features of these plans vary in accordance with the employee group and countries in which employees are located. In addition, the Company maintains supplementary non-contributory pension arrangements for eligible employees, primarily for benefits which do not qualify for funding under the various registered pension plans.

The Company has also established defined contribution pension plans for eligible qualifying employees. Company contributions to these defined contribution pension plans are subject to certain vesting requirements. Generally, Company contributions are a set percentage of employees' annual income and matched against employee contributions.

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.

Defined benefit pension costs related to current services are charged to income as services are rendered. Based on management's best estimate assumptions, actuarial valuations of the pension obligations are determined using the projected benefit method pro-rated on service. The estimated present value of post-retirement health care and life insurance benefits is charged to income over the employees' years of service to the date of eligibility. For the purpose of calculating the expected returns on pension plan assets for most of the Canadian pension plans, a market-related asset value is used which recognizes asset gains and losses in a systematic and rational manner over a period of five years. For all other pension plans the actual market value of plan assets is used to calculate the expected return on assets. Any transition adjustments, as well as future adjustments arising from plan amendments, are amortized to income over the average remaining service period of active employees expected to receive benefits under the plans. Only future variations in actuarial estimates in excess of the greater of 10% of the plan assets or the benefit obligation at the beginning of the year are amortized.

STOCK-BASED COMPENSATION

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, new shares are issued, contributed surplus is reversed and the shares issued are credited to share capital in the consolidated statements of equity.

1. Accounting Policies (Cont'd)

Other stock-based compensation plans are accounted for as liability awards. The liabilities for these plans are calculated based on the number of award units outstanding at the end of the reporting period. Each unit is equivalent in value to the fair market value of a common share of Sun Life Financial Inc. The liabilities are accrued and expensed on a straight-line basis over the vesting periods. The liabilities are paid in cash at the end of the vesting period.

2. Changes in Accounting Policies

ADOPTED IN 2006

Implicit variable interests:

On January 1, 2006, the Company adopted the recommendations of the Emerging Issues Committee (EIC) EIC 157, Implicit Variable Interests under AcG-15 (EIC-157) issued by the EIC of the CICA. Under Accounting Guideline 15, Variable Interest Entities (AcG-15), an entity holding an interest in a variable interest entity (VIE) has to consolidate that entity if the interest it holds exposes the enterprise to the majority of the entity's risks or rewards. EIC 157 clarifies that such interests do not have to be explicit and may be inferred from particular facts and circumstances. Such implicit variable interest must be evaluated in accordance with AcG-15 to determine if consolidation is appropriate. The identification of an implicit variable interest is a matter of judgment that depends on the relevant facts and circumstances. This change in accounting policy did not have a material impact on these consolidated financial statements.

Stock-based compensation:

In July 2006, the EIC of the CICA issued EIC162, Stock-based Compensation for Employees Eligible to Retire Before the Vesting Date. EIC162 requires that compensation cost for a stock option award attributable to an employee who is eligible to retire at the grant date be fully recognized on the grant date; and compensation costs attributable to stock-based compensation awards granted to employees who will become eligible to retire during the vesting period be recognized over the period from the grant date to the date the employee becomes eligible to retire. This EIC is effective for financial statements issued for periods ending on or after December 31, 2006 and requires retroactive application to all stock-based compensation awards accounted for in accordance with CICA Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments. This change in accounting policy, including the retroactive impact, did not have a material impact on these consolidated financial statements.

FUTURE IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

Financial instruments, hedges and comprehensive income:

Summary of new standards

On January 1, 2007, the Company will adopt CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement; CICA Handbook Section 3865, Hedges; CICA Handbook Section 1530, Comprehensive Income; and the amendments to CICA Handbook sections and accounting guidelines resulting from the issuance of these sections. Under the new standards, all financial assets will be classified as held-for-trading, held-to-maturity, loans and receivables, or available-for-sale and all financial liabilities, other than actuarial liabilities, will be classified as held-for-trading or other financial liabilities. Financial instruments classified as held-for-trading will be measured at fair value with changes in fair value recognized in net income. Financial assets classified as held-to-maturity or as loans and receivables and other financial liabilities will be measured at amortized cost using the effective interest rate method. Available-for-sale financial assets will be measured at fair value with changes in unrealized gains and losses recognized in other comprehensive income (OCI).

2. Changes in Accounting Policies (Cont'd)

All derivative financial instruments will be reported on the balance sheet at fair value with changes in fair value recognized in net income unless the derivative is part of a hedging relationship that qualifies as a cash flow hedge or hedge of a net investment in a self-sustaining foreign operation. In a fair value hedging relationship, the derivative hedging instrument is recorded at fair value with the related gain or loss is recorded in net income. The carrying value of the hedged item is adjusted for the gain or loss on the hedged item attributable to the hedged risk and is recorded in net income. As a result, the change in the carrying value of the hedged item, to the extent that the hedging relationship is effective, will offset the changes in the fair value of the derivative. In a cash flow hedging relationship, the hedge effective portion of the change in the fair value of the hedging derivative is recognized in OCI and the ineffective portion is recognized in net income. The amounts recognized in accumulated OCI will be reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item. In a hedge of a net investment in a foreign operation, the hedge effective portion of the gain or loss on the hedging instrument is recognized in OCI and the ineffective portion is recognized in net income.

The Company will also be required to identify derivatives embedded in other contracts unless the host contract is an insurance policy issued by the Company. Embedded derivatives identified are required to be bifurcated from the host contract if the host contract is not already measured at fair value with changes in fair value recorded to income, if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract and if a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. Embedded derivatives will be recorded at fair value, with changes in fair value of these embedded derivatives recorded to net income.

The Company will also be required to present a new statement of Comprehensive Income and its components, as well as the components of accumulated OCI, in its consolidated financial statements. Comprehensive income includes both net income and OCI. Major components of OCI include changes in unrealized gains and losses of financial assets classified as available-for-sale, exchange gains and losses arising from the translation of the financial statements of self-sustaining foreign operations, and the changes in fair value of effective cash flow hedges, and hedges of net investments in foreign operations.

CICA Handbook Section 4211, Life Insurance Enterprises — Specific Items, replaces CICA Handbook Section 4210 in 2007. The accounting requirements for life insurance portfolio investments in Handbook Section 4211 will only be applied to investments in real estate, and are significantly unchanged from Section 4210. Other financial assets previously included as portfolio investments will be required to follow the accounting requirements in the new Handbook sections 3855, 3865 and 1530. As a result, realized gains and losses on financial instruments no longer covered by Section 4211, will no longer be deferred and amortized into income but will be recognized in net income as fair value changes (for assets designated as held-for-trading), or on the date of sale. This will include gains and losses on the sales of bonds, stocks, mortgages and derivatives. Investments held in segregated funds will follow the accounting requirements in Section 4211, which are unchanged from Section 4210.

Recognition, derecognition and measurement policies followed in prior years' financial statements are not reversed and therefore, prior period financial statements will not be restated.

Expected impact on 2007 consolidated financial statements

Deferred realized gains and losses on sales of financial assets previously accounted for as life insurance portfolio investments, including gains and losses arising from sales of bonds, stocks, mortgages and derivatives, will be recorded to retained earnings on January 1, 2007. Realized gains and losses on the sales of these assets will be reported in investment income in 2007.

Corporate loans with a carrying value of $4,931 that were previously included with bonds on the consolidated balance sheet were classified as loans and will be reported with mortgages on January 1, 2007, because they do not meet the definition of a debt security. These loans, as well as mortgage loans, will continue to be accounted for at amortized cost using the effective interest rate method in 2007. Investments in mortgages and corporate loans support both actuarial liabilities and non-life insurance business.

The Company chose a transition date of January 1, 2003 for embedded derivatives and therefore, will only be required to account separately for those embedded derivatives in hybrid instruments issued, acquired or substantially modified after that date.

Accumulated OCI and comprehensive income will be included in the March 31, 2007 interim consolidated financial statements. The Company will also reclassify the December 31, 2006 currency translation account balance of $(1,337) currently included as a separate component of equity to accumulated OCI in the interim consolidated statement of equity for March 31, 2007.

2. Changes in Accounting Policies (Cont'd)

The Canadian government has recently announced its intention to align the current Canadian tax rules with the new standards. At the time of finalizing these consolidated financial statements, detailed legislative guidance on implementation of the proposed changes has not been released. Accordingly the impact of these proposed tax changes is not yet determinable.

Investments supporting actuarial liabilities

On January 1, 2007, the Company designated bonds, stocks, and other invested assets supporting actuarial liabilities with a carrying value of $58,565 and fair value of $62,017 as held-for-trading. On January 1, 2007, derivatives supporting actuarial liabilities that are not classified as hedges for accounting purposes, with a fair value of $843 will be recorded on the balance sheet. The difference between the fair value and carrying value of these instruments, net of the related tax expense, will be recorded to opening retained earnings on January 1, 2007. The actuarial liabilities are supported, in part, by assets that are designated as held-for-trading and certain non-hedging derivatives. Because the value of the actuarial liabilities is determined by reference to the assets supporting those liabilities, changes in the actuarial liabilities will offset a significant portion of the future changes in fair value of those assets recorded to income and the amount recorded to retained earnings on transition. The Company also designated bonds and stocks with a carrying value of $209 and a fair value of $207 as available-for-sale. These assets are supporting claims stabilization funds and were designated as such in order to match the measurement of these liabilities. The Company also designated other invested assets with a carrying value of $178 as available-for-sale. These assets are investments in limited partnerships and will be recorded at cost.

On January 1, 2007, deferred net realized gains of $3,317 relating to assets supporting actuarial liabilities, excluding real estate, net of the related tax expense, will be recorded to retained earnings. Since deferred net realized gains are generally taken into account in establishing the actuarial liabilities, most of the deferred net realized gains recorded to retained earnings will be offset by changes in actuarial liabilities also recorded to retained earnings on January 1, 2007.

Investments not supporting actuarial liabilities

On January 1, 2007, the Company designated bonds and stocks not supporting actuarial liabilities with a carrying value of $10,544 and a fair value of $10,906 as available-for-sale. The difference between the fair value and carrying value of these assets, net of the related tax expense, will be recorded to opening OCI as of January 1, 2007. Because future changes in fair value of these assets will be recorded to OCI, these assets will only impact net income when they are sold or other than temporarily impaired, and the gain or loss, and the related tax expense, recorded in accumulated OCI is reclassified to net income. The Company also designated other invested assets with a carrying value of $574 as available-for-sale. These assets are investments in segregated and mutual funds, which will be recorded at fair value, and investments in limited partnerships which will be recorded at cost. The Company also designated bonds, and other invested assets not supporting actuarial liabilities with a carrying value of $187 and a fair value of $185 as held-for-trading. Changes in fair value of these assets will be recorded to income in 2007. These assets are primarily investments held by non-insurance subsidiaries of the Company.

On January 1, 2007, derivatives not supporting actuarial liabilities with a fair value of $279 will be recorded on the balance sheet. The difference between the fair value and carrying value of these instruments, net of the related tax expense, will be recorded to opening retained earnings. For hedging derivatives, a portion of the difference between the carrying value and fair value of the derivatives will be recorded to opening OCI for the effective portion for derivatives that qualify for cash flow or net investment hedge accounting. An adjustment to retained earnings will also be recorded related to the hedged item in a fair value hedging relationship.

Future changes in fair value of assets not supporting liabilities that are designated as held-for trading and non-hedging derivatives not supporting actuarial liabilities will impact net income in 2007.

Deferred net realized gains of $580 related to assets not supporting actuarial liabilities, excluding real estate, net of the related tax expense, will be recorded to retained earnings on January 1, 2007.

Determining the variability to be considered in applying the Variable Interest Entity Standards:

On January 1, 2007, the Company will adopt EIC 163, determining the variability to be considered in applying AcG-15 (EIC-163) issued by the EIC of the CICA. EIC-163 provides additional clarification on the nature of the variability to be considered in applying AcG-15 based on an assessment of the design of the entity. EIC 163 is effective for financial statements issued for periods beginning on or after January 1, 2007. The Company does not expect these amendments to have a material impact on the consolidated financial statements.

3. Acquisition and Disposal

On October 18, 2005, the Company completed the acquisition of CMG Asia Limited; CMG Asia Trustee Company Limited; CommServe Financial Limited and Financial Solutions Limited (collectively "CMG Asia") for $563. CMG Asia formed the Hong Kong individual life insurance, group insurance and group pension and brokerage operations of the Commonwealth Bank of Australia (CBA). CMG Asia's results are included in the SLF Asia reportable segment in these consolidated financial statements.

The business acquired includes both general and segregated funds business. The acquired intangible assets include a distribution network of $23 and asset administration contracts of $24, which are both subject to amortization on a straight-line basis over their projected economic lives of 20 years. Goodwill acquired in this transaction is not deductible for tax purposes. The purchase equation was adjusted in the fourth quarter of 2006, which impacted the goodwill.

The CMG Asia transaction is summarized below:

	Acquisition 2005 CMG Asia(1)
Percentage of shares acquired	100%
Invested assets acquired	$ 1,548
Other assets acquired	122
	1,670
Actuarial liabilities and other policy liabilities acquired	1,453
Amounts on deposit acquired	159
Other liabilities acquired	40
	$ 1,652
Net balance sheet assets acquired	$ 18
Consideration:	
Transaction and other related costs	$ 9
Cash cost of acquisition (2) (3)	554
Total consideration	$ 563
Goodwill on acquisition (3)	$ 545
Cash and cash equivalents acquired	$ 77

(1) Other assets acquired include $47 of intangible assets.
(2) Includes the cost to hedge the foreign exchange exposure of the purchase price.
(3) Includes $19 for the impact of change in value of the receivable from CBA.

In the fourth quarter of 2006, the Company increased its ownership interest in CI Investments by 0.74% by purchasing approximately two million units of CI Financial Income Fund for $55. The purchase resulted in a $36 increase to goodwill and a $16 increase to intangible assets.

On August 26, 2005, the Company sold its 31.72% investment in Administradora de Fondos de Pensiones Cuprum, S.A. (Cuprum) to Empresas Penta S.A., for $130 in cash. This transaction resulted in a loss of $51 ($43 recorded to net investment income and an additional tax charge of $8, recorded to income taxes) in 2005. This loss includes a foreign exchange loss of $52, equivalent to the amount of the foreign exchange loss accumulated in the currency translation account in the consolidated statements of equity.

SUBSEQUENT EVENT

On January 10, 2007, Sun Life Financial Inc. entered into an agreement to purchase the U.S. group benefits business of Genworth Financial, Inc. (Genworth) for U.S. $650. The transaction will be financed with existing capital. It is expected to close in the second quarter of 2007 and is subject to the approval of regulatory authorities in Canada and the United States. On January 29, 2007, Sun Life Financial Inc. assigned to Sun Life Assurance, for U.S. $609, the rights to purchase Genworth Life & Health Insurance Company, the principal operating subsidiary of Genworth's U.S. group benefits business.

4. Segmented Information

The Company has five reportable segments: SLF Canada, SLF U.S., MFS Investment Management (MFS), SLF Asia, and Corporate. These reportable segments reflect the Company's management structure and internal financial reporting. Each of these segments operates in the financial services industry and has its own management. The Company's revenues from these segments are derived principally from mutual funds, investment management and annuities, life and health insurance, and life retrocession. Revenues not attributed to the strategic business units are derived primarily from investments of a corporate nature and earnings on capital.

Corporate includes the results of the Company's U.K. business unit, its active Reinsurance business unit and Corporate Support operations, which include run-off reinsurance as well as investment income, expenses, capital and other items not allocated to the Company's other business groups. Total net income in this category is shown net of certain expenses borne centrally.

Inter-segment transactions consist primarily of internal financing agreements. They are measured at market values prevailing when the arrangements are negotiated. Inter-segment revenue for 2006 consists of interest of $281($248 in 2005 and $339 in 2004) and fee income of $78 in 2006 ($55 in 2005 and $44 in 2004).

The results of the segments' operations are discussed in the Management's Discussion and Analysis. The results for MFS for 2004 include the after-tax provision for regulatory settlements of $59.

Results by segment for the years ended December 31

		United States				Consolidation	
	SLF Canada	SLF U.S.	MFS	SLF Asia	Corporate	Adjustments	Total
2006							
Revenue	**$ 9,333**	**$10,465**	**$ 1,662**	**$ 1,022**	**$ 2,164**	**$ (359)**	**$24,287**
Change in actuarial liabilities	**$ 524**	**$ 1,717**	**$ —**	**$ 244**	**$ 40**	**$ —**	**$ 2,525**
Interest on claims and deposits	**$ 80**	**$ 17**	**$ —**	**$ 45**	**$ 4**	**$ —**	**$ 146**
Interest expenses	**$ 134**	**$ 211**	**$ 5**	**$ —**	**$ 199**	**$ (226)**	**$ 323**
Income taxes expense (benefit)	**$ 262**	**$ 21**	**$ 150**	**$ 17**	**$ (61)**	**$ —**	**$ 389**
Total net income (loss)	**$ 1,001**	**$ 449**	**$ 234**	**$ 101**	**$ 359**	**$ —**	**$ 2,144**
2005							
Revenue	$ 8,658	$ 9,161	$ 1,648	$ 759	$ 1,995	$ (303)	$21,918
Change in actuarial liabilities	$ (240)	$ 769	$ —	$ 253	$ 90	$ —	$ 872
Interest on claims and deposits	$ 77	$ 18	$ —	$ 35	$ 4	$ —	$ 134
Interest expenses	$ 122	$ 151	$ 8	$ —	$ 217	$ (225)	$ 273
Income taxes expense (benefit)	$ 385	$ 113	$ 110	$ 17	$ (94)	$ —	$ 531
Total net income (loss)	$ 971	$ 496	$ 179	$ 42	$ 188	$ —	$ 1,876
2004							
Revenue	$ 8,162	$ 9,429	$ 1,700	$ 694	$ 2,137	$ (392)	$21,730
Change in actuarial liabilities	$ (235)	$ 1,332	$ —	$ 295	$ 38	$ (5)	$ 1,425
Interest on claims and deposits	$ 85	$ 17	$ —	$ 29	$ 6	$ —	$ 137
Interest expenses	$ 122	$ 135	$ 15	$ —	$ 340	$ (334)	$ 278
Income taxes expense (benefit)	$ 293	$ 55	$ 108	$ 14	$ (207)	$ —	$ 263
Total net income (loss)	$ 907	$ 392	$ 114	$ 45	$ 235	$ —	$ 1,693

Assets by segment as at December 31

		United States				Consolidation	
	SLF Canada	SLF U.S.	MFS	SLF Asia	Corporate	Adjustments	Total
2006							
General fund assets	**$ 52,702**	**$44,172**	**$ 981**	**$ 5,334**	**$ 16,516**	**$ (1,874)**	**$117,831**
Segregated funds net assets	**$ 33,806**	**$27,522**	**$ —**	**$ 1,232**	**$ 8,229**	**$ —**	**$ 70,789**
2005							
General fund assets	$ 51,450	$41,170	$ 866	$ 4,750	$ 14,517	$ (1,887)	$110,866
Segregated funds net assets	$ 28,554	$24,712	$ —	$ 750	$ 6,968	$ —	$ 60,984

4. Segmented Information (Cont'd)

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

	2006	2005	2004
Revenue:			
United States	**$ 618**	$ 453	$ 652
United Kingdom	**1,309**	1,264	1,325
Other countries	**237**	278	160
Total revenue	**$ 2,164**	$ 1,995	$ 2,137
Total net income (loss):			
United States	**$ 190**	$ 91	$ 197
United Kingdom	**193**	179	188
Other countries	**(24)**	(82)	(150)
Total net income (loss)	**$ 359**	$ 188	$ 235
Assets:			
General funds:			
United States	**$ 4,715**	$ 3,666	
United Kingdom	**10,254**	8,880	
Other countries	**1,547**	1,971	
Total general fund assets	**$ 16,516**	$ 14,517	
Segregated funds:			
United Kingdom	**$ 8,229**	$ 6,968	
Total segregated funds net assets	**$ 8,229**	$ 6,968	

5. Fair Value of Financial Instruments

A financial instrument is any contract that gives rise to both a financial asset of one party and a financial liability or equity instrument of another party. In an exchange, "fair value" refers to the amount that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. 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 6. Derivative financial instruments are discussed in Note 7. Fair values of actuarial liabilities, future income taxes related to life insurance companies and deferred net realized gains are disclosed in Note 10. Fair value of debentures is included in Note 11. The fair values and discussion of the method for estimating these values for subordinated debt are included in Note 13. The carrying value and fair value of amounts on deposit are $3,599 and $3,599, respectively, as at December 31, 2006 ($3,382 and $3,382, respectively, as at December 31, 2005). Amounts on deposit represent premiums paid in advance, reinvested policy dividends and customer deposits in the Company's trust subsidiaries. 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.

6. 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.

	2006			2005		
	Carrying Value	**Fair Value**	**Yield %**	Carrying Value	Fair Value	Yield %
ASSETS						
Bonds	**$ 69,230**	**$ 72,524**	**6.31**	$66,154	$ 70,073	6.32
Mortgages	**15,993**	**16,322**	**6.44**	14,561	15,177	6.63
Stocks	**4,899**	**5,544**	**11.24**	3,856	3,986	12.43
Real estate	**3,825**	**4,549**	**12.02**	3,241	3,678	8.46
Policy loans	**3,105**	**3,105**	**6.35**	2,989	2,989	6.31
Cash, cash equivalents and short-term securities	**6,239**	**6,239**	**n/a**	5,091	5,091	n/a
Other invested assets	**2,908**	**4,605**	**n/a**	2,700	4,364	n/a
Total invested assets	**$106,199**	**$112,888**	**6.79**	$98,592	$105,358	6.35

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 marketplace 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 include the Company's investment in segregated funds, investments accounted for by the equity method, derivatives that are reported at fair value and investments in equipment leases. Other invested assets for 2006 include the Company's investment in trust units issued by CI Financial Income Fund and limited partnership units issued by Canadian International LP (formerly an investment in CI Financial) (CI Financial) with a carrying value of $1,159 and a fair value of $2,734 ($1,074 and $2,505, respectively, in 2005). Yield is calculated based on total net investment income divided by the total of the average carrying value of invested assets, which includes accrued investment income net of 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 10.

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 mitigates this risk through detailed credit and underwriting policies as well as through setting counterparty exposure limits. The Company maintains policies which set limits, based on consolidated equity, to the credit exposure for investments in any single issuer and in any associated group of issuers. Exceptions exist for investments in securities which are issued or guaranteed by the Government of Canada, United States or United Kingdom and issuers for which the Board has granted specific approval. Mortgage loans are collateralized by the related property, and generally do not exceed 75% of the value of the property at the time the original loan is made.

6. Invested Assets and Income (Cont'd)

C) INVESTED ASSETS BY TYPE

i) BONDS

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

	2006		2005	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Bonds by credit rating:				
AAA	**$ 13,432**	**$ 13,805**	$ 14,301	$ 14,887
AA	**12,042**	**12,888**	10,122	11,092
A	**22,175**	**23,492**	21,175	22,785
BBB	**19,849**	**20,522**	18,280	19,050
BB and lower	**1,732**	**1,817**	2,276	2,259
Total bonds	**$ 69,230**	**$ 72,524**	$ 66,154	$ 70,073

Investment grade bonds are those rated BBB and above. The Company's bond portfolio has 97.5% (96.6% in 2005) invested in investment grade bonds based on carrying value. The local currency denominated debt of certain foreign governments, used in backing the liabilities of the foreign country, have been classified as investment grade in the table above.

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.

	2006			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Estimated Fair Value**
Issued or guaranteed by:				
Canadian federal government	**$ 3,223**	**$ 163**	**$ (3)**	**$ 3,383**
Canadian provincial and municipal governments	**5,581**	**958**	**(4)**	**6,535**
U.S. Treasury and other U.S. agencies	**1,275**	**34**	**(12)**	**1,297**
Other foreign governments	**2,593**	**418**	**(11)**	**3,000**
Corporate	**48,189**	**2,071**	**(395)**	**49,865**
Asset-backed securities	**8,369**	**172**	**(97)**	**8,444**
Total bonds	**$ 69,230**	**$ 3,816**	**$ (522)**	**$ 72,524**

	2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Issued or guaranteed by:				
Canadian federal government	$ 3,428	$ 183	$ (9)	$ 3,602
Canadian provincial and municipal governments	5,193	1,042	(1)	6,234
U.S. Treasury and other U.S. agencies	1,364	44	(13)	1,395
Other foreign governments	2,214	243	(1)	2,456
Corporate	45,113	2,819	(385)	47,547
Asset-backed securities	8,842	113	(116)	8,839
Total bonds	$ 66,154	$ 4,444	$ (525)	$ 70,073

6. Invested Assets and Income (Cont'd)

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

	2006	2005
Canada	**$ 24,131**	$24,089
United States	**31,025**	30,176
United Kingdom	**6,818**	5,843
Other	**7,256**	6,046
Total bonds	**$ 69,230**	$66,154

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.

	2006		2005	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Due in 1 year or less	**$ 3,164**	**$ 3,184**	$ 2,492	$ 2,500
Due in years 2-5	**13,648**	**13,899**	13,066	13,262
Due in years 6-10	**18,582**	**19,016**	17,454	17,952
Due after 10 years	**25,467**	**27,981**	24,300	27,520
Asset-backed securities	**8,369**	**8,444**	8,842	8,839
Total bonds	**$ 69,230**	**$ 72,524**	$66,154	$70,073

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.

	2006			2005		
	Non-residential	**Residential**	**Total**	Non-residential	Residential	Total
Canada	**$ 6,347**	**$ 2,794**	**$ 9,141**	$ 5,932	$ 3,407	$ 9,339
United States	**6,404**	**306**	**6,710**	4,802	229	5,031
United Kingdom	**142**	**—**	**142**	191	—	191
Total mortgages	**$ 12,893**	**$ 3,100**	**$15,993**	$ 10,925	$ 3,636	$14,561

At December 31, 2006, scheduled mortgage loan maturities, before allowances for losses, are as follows:

Year	**Amount**
2007	**$ 1,495**
2008	**1,164**
2009	**906**
2010	**990**
2011	**1,375**
Thereafter	**10,090**
Total mortgages	**$16,020**

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

6. Invested Assets and Income (Cont'd)

iii) STOCKS

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

	2006	2005
Canada	**$ 1,762**	$ 721
United States	**1,601**	1,438
United Kingdom	**1,274**	1,184
Other	**262**	513
Total stocks	**$ 4,899**	$ 3,856

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 2006	**$ 4,899**	**$ 4,093**	**$ 1,472**	**$ (21)**	**$ 5,544**
Total 2005	$ 3,856	$ 3,180	$ 861	$ (55)	$ 3,986

iv) REAL ESTATE

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

	2006	2005
Canada	**$ 2,372**	$ 2,031
United States	**1,091**	876
United Kingdom	**361**	332
Other	**1**	2
Total real estate	**$ 3,825**	$ 3,241

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.

	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Real estate held for investment	**$ 3,822**	**$ 4,546**	$ 3,238	$ 3,675
Real estate held for sale	**3**	**3**	3	3
Total real estate	**$ 3,825**	**$ 4,549**	$ 3,241	$ 3,678

6. Invested Assets and Income (Cont'd)

D) IMPAIRED INVESTED ASSETS

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

	2006		2005	
	Impaired Carrying Value(1)	**Allowance for Losses**	Impaired Carrying Value(1)	Allowance for Losses
Bonds	**$ 113**	**$ 54**	$ 239	$ 97
Mortgages	**63**	**27**	61	29
Other	**22**	**15**	21	14
Total	**$ 198**	**$ 96**	$ 321	$ 140

(1) Impaired carrying value shown above is shown gross, before allowance for losses. Includes $7 in 2006 ($5 in 2005) 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.

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

	2006	2005
Mortgages with scheduled payments 90 days or more in arrears:		
Carrying value	**$ —**	$ 3
Percentage of total mortgages before allowances	**—**	—
Weighted average recorded investment in impaired mortgage loans, before allowances	**$ 63**	$ 73
Interest received on impaired mortgage loans (recorded as received)	**$ 4**	$ 5
Carrying value of bonds, mortgages and real estate (including specific allowances) that were non-income producing for the preceding 12 months	**$ 75**	$ 100

The changes in the allowances for losses are as follows:

	Bonds	Mortgages	Other	Total
Balance, January 1, 2005	$ 213	$ 37	$ 13	$ 263
Provision for losses (recoveries)	(45)	(5)	3	(47)
Write-offs, net of recoveries	(69)	(2)	(2)	(73)
Effect of changes in currency exchange rates	(2)	(1)	—	(3)
Balance, December 31, 2005	**$ 97**	**$ 29**	**$ 14**	**$ 140**
Provision for losses (recoveries)	**(9)**	**(1)**	**—**	**(10)**
Write-offs, net of recoveries	**(29)**	**(1)**	**1**	**(29)**
Effect of changes in currency exchange rates	**(5)**	**—**	**—**	**(5)**
Balance, December 31, 2006	**$ 54**	**$ 27**	**$ 15**	**$ 96**

6. Invested Assets and Income (Cont'd)

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, 2005	$2,147	$ 158	$ 974	$ 196	$ (9)	$3,466
Net realized gains (losses) for the period	552	35	284	54	222	1,147
Amortization of deferred net realized gains	(278)	(35)	(206)	(25)	(11)	(555)
Effect of changes in currency exchange rates	(130)	—	(72)	(10)	13	(199)
Balance, December 31, 2005	**$2,291**	**$ 158**	**$ 980**	**$ 215**	**$ 215**	**$3,859**
Net realized gains (losses) for the period	**146**	**49**	**169**	**59**	**243**	**666**
Amortization of deferred net realized gains	**(258)**	**(35)**	**(203)**	**(28)**	**(53)**	**(577)**
Effect of changes in currency exchange rates	**114**	**2**	**80**	**9**	**(1)**	**204**
Balance, December 31, 2006	**$2,293**	**$ 174**	**$1,026**	**$ 255**	**$ 404**	**$4,152**

F) NET INVESTMENT INCOME

Net investment income has the following components:

	2006	2005	2004
Interest from:			
Bonds	**$ 3,874**	$ 3,720	$ 3,807
Mortgages	**930**	889	899
Policy loans	**203**	184	202
Cash, cash equivalents and short-term securities	**170**	155	113
Interest income	**5,177**	4,948	5,021
Dividends from stocks	**103**	118	116
Real estate income (net) (1)	**260**	252	229
Amortization of deferred net realized gains	**577**	555	542
Amortization of unrealized gains and losses	**174**	77	(44)
Derivative realized and unrealized gains and losses (2)	**116**	(22)	39
Other items (net) (3)	**335**	196	145
	6,742	6,124	6,048
Recoveries (provision for losses) on investments	**10**	47	(21)
Investment expenses and taxes	**(88)**	(92)	(103)
Total net investment income	**$ 6,664**	$ 6,079	$ 5,924

(1) Includes operating lease rental income of $275 ($271 and $254, respectively, in 2005 and 2004).
(2) Consists of realized and unrealized gains on derivatives that are reported at fair value. Additional derivative gains of $31 ($(66) in 2005 and $(72) in 2004) are included in other items (net).
(3) Includes equity income from CI Financial of $167 in 2006 ($119 in 2005, and $95 in 2004). 2005 also includes the loss on sale of Cuprum of $43 as described in Note 3.

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 fair value of the loaned securities, is deposited by the borrower with a lending agent, usually a securities custodian, and maintained by the lending agent until the underlying security has been returned to the Company. The fair value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the fair values fluctuate. It is the Company's practice to obtain a guarantee from the lending agent against counterparty default, including collateral deficiency. At December 31, 2006, the Company had loaned securities (which are included in invested assets) with a carrying value and fair value of approximately $2,973 and $3,062, respectively ($2,371 and $2,470, respectively, in 2005).

6. Invested Assets and Income (Cont'd)

H) LOAN SECURITIZATIONS

During 2004, the Company sold commercial mortgages with a carrying value of $161 to a trust, which subsequently issued securities backed by the commercial mortgages. This transaction resulted in a gain of $18. The Company was retained to service and administer the mortgages and also retained a subordinated investment interest in the issued securities.

As at December 31, the key assumptions used in the discounted cash flow models to determine the fair value of retained interest amounts are as follows:

	2006	2005
Carrying value of retained interests	**$ 103**	$ 117
Fair value of retained interests	**$ 111**	$ 126
Weighted average remaining life (in years)	**0.7-13.3**	1.0-14.3
Discount rate	**2.5%-12.5%**	2.5-11.1%
Anticipated credit losses	**0.6%**	0.6%

The sensitivity to a 10% and 20% adverse change in key assumptions did not have a material impact on the above fair values.

The credit losses, net of recoveries, of the securitized bond portfolio for 2006 were nil ($13 in 2005). As at December 31, 2006, the securitized bond portfolio included bonds of nil that were 90 days or more past due ($17 in 2005).

The following table summarizes certain cash flows received from securitization trusts in 2006, 2005 and 2004:

	2006	2005	2004
	Mortgages	Mortgages	Mortgages
Proceeds from new securitizations	**$ —**	$ —	$ 179
Cash flows received on retained interests and servicing fees	**$ 18**	$ 33	$ 57

7. 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 and risk management 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 generally 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, 2006, the Company had assets of $51 ($81 in 2005) pledged as collateral for derivative contracts.

7. Derivative Financial Instruments (Cont'd)

The Company has the following amounts outstanding at December 31:

2006

	Fair Value		Notional Amounts – Term to Maturity			Total Notional Amount
	Positive(1)	Net	Under 1 Year	1 to 5 Years	Over 5 Years	
Interest rate contracts	$ 189	$ (51)	$ 2,633	$ 7,551	$13,605	$ 23,789
Foreign exchange contracts	704	599	2,862	1,779	4,667	9,308
Equity and other contracts (2)	585	574	4,997	5,739	307	11,043
Total	$ 1,478	$ 1,122	$10,492	$15,069	$18,579	$ 44,140
Over-the-counter contracts						$ 42,864
Exchange-traded contracts						$ 1,276

2005

	Fair Value		Notional Amounts – Term to Maturity			Total Notional Amount
	Positive(1)	Net	Under 1 Year	1 to 5 Years	Over 5 Years	
Interest rate contracts	$ 328	$ 67	$ 3,749	$ 6,059	$ 9,751	$ 19,559
Foreign exchange contracts	664	589	1,935	1,497	4,124	7,556
Equity and other contracts (2)	586	539	5,522	4,474	1,253	11,249
Total	$ 1,578	$ 1,195	$11,206	$12,030	$15,128	$ 38,364
Over-the-counter contracts						$ 36,859
Exchange-traded contracts						$ 1,505

(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) Equity and other contracts in 2006 include equity forwards with a fair value of $15 ($13 in 2005), hedging the variation in the cash flows associated with the anticipated payments under certain stock-based compensation plans expected to occur in 2007 to 2009. The fair value that has not been recognized of $9 ($7 in 2005) will be recognized in net income as the liability is accrued for the stock-based compensation plan over a three-year vesting period.

Fair values of interest rate swap contracts and foreign exchange swap and forward 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.

8. Goodwill and Intangible Assets

A) GOODWILL

In addition to the goodwill of $5,981 ($5,963 in 2005) shown on the consolidated balance sheets, goodwill of $346 ($310 in 2005) for investments accounted for by the equity method is included in other invested assets. There were no write-downs of goodwill due to impairment during 2006, 2005 and 2004.

8. Goodwill and Intangible Assets (Cont'd)

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

	Canada	United States	Asia	Corporate	Total
Balance, January 1, 2005	$ 3,732	$ 1,497	$ 28	$ 609	$ 5,866
Acquisitions	—	—	526	48	574
Disposals	—	—	—	(80)	(80)
Effect of changes in currency exchange rates	—	(43)	(35)	(9)	(87)
Balance, December 31, 2005	**$ 3,732**	**$ 1,454**	**$ 519**	**$ 568**	**$ 6,273**
Adjustment to purchase equation of CMG Asia (Note 3)	**—**	**—**	**19**	**—**	**19**
Acquisitions (Note 3)	**36**	**—**	**—**	**10**	**46**
Disposals	**—**	**—**	**—**	**(7)**	**(7)**
Effect of changes in currency exchange rates	**—**	**(1)**	**(3)**	**—**	**(4)**
Balance, December 31, 2006	**$ 3,768**	**$ 1,453**	**$ 535**	**$ 571**	**$ 6,327**

B) INTANGIBLE ASSETS

In addition to the intangible assets of $777 ($801 in 2005) shown on the consolidated balance sheets, intangible assets of $759 ($744 in 2005) 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 $25 ($22 in 2005 and $22 in 2004). There were no write-downs of intangibles due to impairment during 2006, 2005 and 2004. As at December 31, the components of the intangible assets are as follows:

	2006			2005		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Amount**	Gross Carrying Amount	Accumulated Amortization	Net Amount
Finite-life intangible assets:						
Sales potential of field force	**$ 423**	**$ 48**	**$ 375**	$ 423	$ 35	$ 388
Asset administration contracts	**224**	**38**	**186**	225	32	193
Distribution channels	**32**	**16**	**16**	32	13	19
Brand name (1)	**54**	**2**	**52**	54	—	54
Other	**2**	**2**	**—**	2	1	1
	735	**106**	**629**	736	81	655
Indefinite-life intangible assets:						
Fund management contracts (2)	**895**	**—**	**895**	878	—	878
State licenses	**12**	**—**	**12**	12	—	12
	907	**—**	**907**	890	—	890
Total intangible assets	**$ 1,642**	**$ 106**	**$ 1,536**	$ 1,626	$ 81	$ 1,545

(1) Usage of the brand name changed on December 31, 2005. Amortization of the brand name commenced on January 1, 2006.
(2) The increase is primarily due to the increase in the Company's ownership interest in CI investments. (Note 3)

9. Other Assets

Other assets consist of the following:

	2006	2005
Accounts receivable	**$ 1,401**	$ 2,168
Investment income due and accrued	**1,190**	1,161
Future income taxes (Note 19)	**747**	667
Deferred acquisition costs	**185**	271
Prepaid expenses	**207**	178
Outstanding premiums	**323**	316
Accrued benefit asset (Note 21)	**454**	456
Capital assets	**179**	158
Other	**188**	135
Total other assets	**$ 4,874**	$ 5,510

Amortization of deferred acquisition costs charged to income amounted to $105 in 2006 ($138 and $179 in 2005 and 2004, respectively).

Capital assets are carried at a cost of $728 ($632 in 2005), less accumulated depreciation and amortization of $549 ($474 in 2005). Depreciation and amortization charged to income totalled $67 in 2006 ($63 and $62 in 2005 and 2004, respectively).

10. 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 mortality and morbidity rates, policy terminations, equity market performance, interest rates, asset default, inflation, expenses and other factors over the life of the Company's products. The general approaches to the setting of assumptions used by the Company are described later in this note.

The Company uses best estimate assumptions for expected future experience. Some assumptions relate to events that are anticipated to occur many years in the future and are likely to require subsequent revision. Additional provisions are included in the actuarial liabilities to provide for possible adverse deviations from the best estimates. If the assumption is more susceptible to change or if 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, excess provisions are released into income. In recognition of the long-term nature of policy liabilities, the margin for possible deviations generally increases for contingencies further in the future. The best estimate assumptions and margins for adverse deviations are reviewed annually, and revisions are made where deemed necessary and prudent.

The Company generally maintains distinct asset portfolios for each line of business. To ensure the adequacy of liabilities, the Company does cash flow testing using several plausible scenarios for future interest rates and economic environments 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. Deferred net realized gains are taken into account in establishing the actuarial liabilities.

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

Provision for Policyholder Dividends

An amount equal to the earned and accrued portion of policyholder dividends including earned and accrued terminal dividends is shown as a provision for policyholder dividends. Actuarial liabilities provide for the payment of policyholder dividends that are forecasted to be paid over the next 12 months and beyond, in excess of dividends earned and accrued. Both liabilities are determined taking into account the scale of dividends approved by the Board. Actuarial liabilities take into account the expectation that future dividends will be adjusted to reflect future experience. Earned and accrued policyholder dividends of $846 are included in policyholder dividends and interest on claims and deposits in the consolidated statements of operations ($802 in 2005 and $809 in 2004).

B) COMPOSITION OF ACTUARIAL LIABILITIES AND OTHER POLICY LIABILITIES

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

	2006				
	Canada	**United States**	**Asia**	**Corporate(1)**	**Total**
Individual participating life	**$12,213**	**$ 5,362**	**$ 2,508**	**$ 3,296**	**$23,379**
Individual non-participating life	**2,013**	**7,723**	**333**	**487**	**10,556**
Group life	**1,216**	**127**	**8**	**3**	**1,354**
Individual annuities	**8,977**	**14,486**	**—**	**3,883**	**27,346**
Group annuities	**5,538**	**5,277**	**353**	**—**	**11,168**
Health insurance	**4,850**	**527**	**(1)**	**107**	**5,483**
Total actuarial liabilities	**34,807**	**33,502**	**3,201**	**7,776**	**79,286**
Add: Other policy liabilities**(2)**	**464**	**541**	**62**	**683**	**1,750**
Actuarial liabilities and other policy liabilities	**$35,271**	**$34,043**	**$ 3,263**	**$ 8,459**	**$81,036**

	2005				
	Canada	United States	Asia	Corporate(1)	Total
Individual participating life	$11,591	$ 5,167	$ 2,348	$ 3,094	$22,200
Individual non-participating life	1,858	6,649	185	496	9,188
Group life	1,184	130	7	(3)	1,318
Individual annuities	9,317	16,002	—	3,192	28,511
Group annuities	5,752	3,313	361	—	9,426
Health insurance	4,581	470	(1)	84	5,134
Total actuarial liabilities	34,283	31,731	2,900	6,863	75,777
Add: Other policy liabilities**(2)**	570	431	49	662	1,712
Actuarial liabilities and other policy liabilities	$34,853	$32,162	$ 2,949	$ 7,525	$77,489

(1) Primarily business from the U.K., reinsurance and run-off reinsurance operations.
(2) Consists of policy benefits payable, provisions for unreported claims, provisions for policyholder dividends, and provisions for experience rating refunds.

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

C) TOTAL ASSETS SUPPORTING LIABILITIES AND EQUITY

The following tables show the total assets supporting total liabilities for the product lines shown (including actuarial and other policy liabilities), and assets supporting equity and other:

	2006					
	Bonds	**Mortgages**	**Stocks**	**Real Estate**	**Other**	**Total**
Individual participating life	**$14,591**	**$ 4,034**	**$ 3,542**	**$ 2,632**	**$ 4,382**	**$ 29,181**
Individual non-participating life	**9,542**	**2,233**	**500**	**117**	**2,505**	**14,897**
Group life	**1,394**	**675**	**5**	**22**	**99**	**2,195**
Individual annuities	**23,574**	**4,897**	**60**	**30**	**2,124**	**30,685**
Group annuities	**9,607**	**2,151**	**45**	**147**	**892**	**12,842**
Health insurance	**4,704**	**1,723**	**14**	**48**	**579**	**7,068**
Equity and other	**5,818**	**280**	**733**	**829**	**13,303**	**20,963**
Total assets	**$69,230**	**$ 15,993**	**$ 4,899**	**$ 3,825**	**$23,884**	**$117,831**

	2005					
	Bonds	Mortgages	Stocks	Real Estate	Other	Total
Individual participating life	$13,714	$ 3,573	$ 2,886	$ 2,211	$ 5,454	$ 27,838
Individual non-participating life	7,561	1,557	355	49	2,110	11,632
Group life	1,540	656	4	18	7	2,225
Individual annuities	25,664	4,736	52	28	1,432	31,912
Group annuities	7,524	2,281	43	123	941	10,912
Health insurance	4,650	1,514	10	41	486	6,701
Equity and other	5,501	244	506	771	12,624	19,646
Total assets	$66,154	$ 14,561	$ 3,856	$ 3,241	$23,054	$110,866

D) CHANGES IN ACTUARIAL LIABILITIES

Changes in actuarial liabilities during the year are as follows:

	2006	2005
Actuarial liabilities, January 1	**$ 75,777**	$74,258
Change in liabilities on in-force business	**(2,942)**	(3,495)
Liabilities arising from new policies	**5,415**	4,268
Significant changes in assumptions or methodology (1):		
Gross increases	**149**	268
Gross decreases	**(97)**	(169)
Increase in actuarial liabilities	**2,525**	872
Actuarial liabilities before the following:	**78,302**	75,130
Acquisition (Note 3)	**—**	1,440
Change due to termination of reinsurance agreement (2)	**—**	1,223
Effect of changes in currency exchange rates	**984**	(2,016)
Actuarial liabilities, December 31	**79,286**	75,777
Add: Other policy liabilities	**1,750**	1,712
Actuarial liabilities and other policy liabilities, December 31	**$ 81,036**	$77,489

(1) The increase in reserves in 2006 results from strengthening of longevity assumptions in Canada and the U. K. The increases in reserves in 2005 were from (a) lapse and morbidity assumption changes in the Reinsurance business unit and (b) strengthening the margin for future credit yield compression in U.S. individual. The decreases in 2006 arise from changes in assumptions as a result of changes in pension legislation in the U.K. The decreases in 2005 were mainly from mortality assumption changes in the Reinsurance business unit.

(2) Reserve increase due to the termination of a reinsurance treaty within the Canadian group benefits business, and the resulting recapture of the business. An associated decrease in other liabilities was also recorded to reflect this recapture.

10. 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 $88,144 in 2006 and $84,855 in 2005. 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 $213 in 2006 (carrying value of $638) and $48 in 2005 (carrying value of $277). 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 generally taken into account in establishing the actuarial liabilities, do not exist when financial assets and liabilities are measured at fair value.

F) ASSUMPTIONS AND MEASUREMENT UNCERTAINTY

Mortality

Mortality refers to the rates at which death occurs for defined groups of people. Insurance mortality assumptions are generally based on the Company's average five-year experience. For annuities, Company experience is generally combined with industry experience, since the Company's own experience is insufficient to be statistically credible for most of its annuity product lines. Assumed mortality rates for life insurance contracts do not reflect any future improvement which might be expected. On annuities where lower mortality rates result in an increase in liabilities, assumed future mortality rates are adjusted to reflect estimated future improvements in the rates.

For products where higher mortality would be financially adverse to the Company, a 1% increase in the best estimate assumption would decrease net income by $88. For products where lower mortality would be financially adverse to the Company, a 1% reduction in the mortality assumption would decrease net income by $40.

Morbidity

Morbidity refers to both the rates of accident or sickness and the rates of recovery there from, for defined groups of people. Most of the Company's disability insurance is marketed on a group basis. In Canada and in Asia, the Company offers critical illness policies on an individual basis, and in Canada, the Company offers long-term care on an individual basis; a significant block of critical illness business written in the U. K. has also been assumed by the Company's Reinsurance business unit. Medical stop-loss insurance is offered on a group basis in the United States and Canada. In Canada, group morbidity assumptions are based on the Company's five-year average experience, modified to reflect the trend in recovery rates. For long-term care and critical illness insurance, assumptions are developed in collaboration with the Company's reinsurers and are largely based on their experience. In the United States, Company experience is used for both medical stop-loss and disability assumptions, with some consideration for industry experience. Larger provisions for adverse deviation are used for those benefits where Company or industry experience is limited. For products where the morbidity is a significant assumption, a 1% adverse change in that assumption would reduce net income by $20.

Asset default

In addition to the allowances for losses on invested assets outlined in Note 6, the actuarial liabilities include an amount of $2,578 determined on a pre-tax basis ($2,413 in 2005) to provide for possible future asset defaults and loss of asset value on current assets and on future purchases. 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 variable annuities primarily in the United States that are subject to equity market movements. The Company also reinsures the guarantees offered on variable 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 percentage of its exposure with long-dated put options against the S&P 500.

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

The Company has a block of unit-linked products in the U. K. which offer guaranteed annuity purchase price options. While not segregated fund guarantees, the exposure to the annuity options is dependent on 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 variable annuities and under the U.K. annuity options. The sensitivity of the actuarial liability to changes in expected equity market returns is significant for these blocks of business. For example, a 1% reduction in the expected long-term equity market return assumption would decrease net income by $68 in respect of these guarantees.

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 reinvest excess asset cash flows under unfavourable interest environments.

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

Interest rate sensitivity is provided for in the actuarial liabilities for all policies, with 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, policyholders share investment performance through changes in 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. These products generally have minimum interest rate guarantees.

For the Company's actuarial liabilities, an immediate 1% parallel increase in interest rates at December 31, 2006, across the entire yield curve, would result in an estimated increase in net income of $60. Conversely, an immediate 1% parallel decrease in interest rates would result in an estimated decrease in net income of $242. These results do not reflect any management action.

Policy termination rates

Policyholders may allow their policies to terminate prior to the end of the contractual coverage period by choosing not to continue to pay premiums or by exercising one of the non-forfeiture options in the contract. Assumptions for termination experience on life insurance are generally based on the Company's average five-year experience. Termination rates may vary by plan, age at issue, method of premium payment, and policy duration. For universal life contracts, it is also necessary to set assumptions about premium cessation occurring prior to termination of the policy. 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 $81 if the termination rate assumption were 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 $74 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 overheads. Expense assumptions are mainly based on recent Company experience using an internal expense allocation methodology. Future expense assumptions reflect inflation. The sensitivity of actuarial liabilities to a 10 % increase in unit expenses Company-wide would result in a decrease in net income of $263.

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

G) REINSURANCE AGREEMENTS

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

	2006	2005	2004
Premiums:			
Direct premiums	**$ 14,947**	$13,305	$13,346
Reinsurance assumed	**574**	530	527
Reinsurance ceded	**(912)**	(895)	(970)
	$ 14,609	$12,940	$12,903
Payments to policyholders, beneficiaries and depositors:			
Direct payments	**$ 12,987**	$12,961	$12,773
Reinsurance assumed	**419**	453	413
Reinsurance ceded	**(511)**	(612)	(654)
	$ 12,895	$12,802	$12,532

Actuarial liabilities are shown net of ceded reinsurance of $2,401 in 2006 ($2,132 in 2005).

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 2006 analysis tested the capital adequacy of the Company until December 31, 2010, under various adverse economic and business conditions. The Appointed Actuary reviews the calculation of the Company's Canadian capital and surplus requirements. In addition, foreign operations and foreign subsidiaries of the Company must comply with local capital requirements in each of the jurisdictions in which they operate. Furthermore, the Company is required to appropriate retained earnings of $2,899 ($2,857 in 2005). All of these regulatory requirements constrain the Company's ability to distribute its retained earnings.

11. Senior Debentures

The following obligations are included in senior debentures:

	Currency of Borrowing	Interest Rate	Maturity	2006	2005
Partnership capital securities	U.S. dollars	8.53%	—	**$ 698**	$ 699
Sun Life Assurance debentures					
Series A debenture	Cdn. dollars	6.87%	2031	**990**	990
Series B debenture	Cdn. dollars	7.09%	2052	**200**	200
Funding debenture (1)	Cdn. dollars	7.09%	2052	**3**	3
Sun Life Financial Inc. senior unsecured debentures					
Series A (2)	Cdn. dollars	4.80%	2035	**600**	600
Series B (3)	Cdn. dollars	4.95%	2036	**700**	—
Series C (4)	Cdn. dollars	5.00%	2031	**300**	—
				$ 3,491	$ 2,492
Fair value				**$ 3,704**	$ 2,723

(1) On December 30, 2005, $7 of the funding debenture was redeemed prior to the maturity date.

(2) On November 23, 2005, Sun Life Financial Inc. issued $600 principal amount of Series A Senior Unsecured 4.8% Fixed/Floating Debentures due 2035. These debentures will bear interest at a fixed annual rate of 4.8% per annum payable semi-annually until November 23, 2015, and at a variable rate payable quarterly equal to the Canadian dollar offered rate for three months' bankers' acceptances plus 1% thereafter until maturity on November 23, 2035. Sun Life Financial Inc. may redeem the debentures after 10 years at 100% of the principal amount. The debentures are a direct senior unsecured obligation of the Company and will rank equally with all other unsecured and unsubordinated indebtedness of Sun Life Financial Inc.

(3) On March 13, 2006, Sun Life Financial Inc. issued $700 principal amount of Series B Senior Unsecured 4.95% Fixed/Floating Debentures due 2036. These debentures bear interest at a fixed rate of 4.95% per annum payable semi-annually until June 1, 2016, and at a variable rate equal to the Canadian dollar offered rate for three months' bankers' acceptances plus 1% thereafter until maturity on June 1, 2036. Sun Life Financial Inc. may redeem the debentures on or after June 1, 2016, at 100% of the principal amount. The debentures are direct senior unsecured obligations of the Company and rank equally with all other unsecured and unsubordinated indebtedness of Sun Life Financial Inc.

(4) On July 11, 2006, Sun Life Financial Inc. issued $300 principal amount of Series C Senior Unsecured 5% Fixed/Floating Debentures due 2031. These debentures bear interest at a fixed rate of 5% per annum payable semi-annually until July 11, 2011, and at a variable rate equal to the Canadian dollar offered rate for three month bankers' acceptances plus 1% thereafter until maturity on July 11, 2031. Sun Life Financial Inc. may redeem the debentures on or after July 11, 2011 at 100% of the principal amount. The debentures are direct senior unsecured obligations of the Company and rank equally with all other unsecured and unsubordinated indebtedness of Sun Life Financial Inc.

Fair value is based on market price for the same or similar instruments as appropriate. Interest expense for the partnership capital securities and the debentures was $205, $144 and $150 for 2006, 2005 and 2004, respectively.

12. Other Liabilities

A) COMPOSITION OF OTHER LIABILITIES

Other liabilities consist of the following:

	2006	2005
Accounts payable	**$ 1,811**	$ 2,137
Bank overdrafts	**281**	217
Bond repurchase agreements	**2,151**	1,614
Accrued expenses and taxes	**1,211**	1,075
Borrowed funds	**214**	127
Future income taxes (Note 19)	**226**	502
Accrued benefit liability (Note 21)	**505**	470
Provisions for future policyholder costs	**48**	54
Other	**387**	396
Total other liabilities	**$ 6,834**	$ 6,592

B) BOND REPURCHASE AGREEMENTS

The Company enters into bond repurchase agreements for operational funding and liquidity purposes. Bond repurchase agreements have maturities ranging from 2 to 82 days, averaging 26 days, and bearing interest rates averaging 4.15% as at December 31, 2006 (3.24% in 2005). As at December 31, 2006, the Company had assets with a total market value of $2,147 ($1,614 in 2005), pledged as collateral for the bond repurchase agreements.

12. Other Liabilities (Cont'd)

C) BORROWED FUNDS

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

	Currency of Borrowing	Maturity	**2006**	2005
Encumbrances on real estate	Cdn. dollars	2007-2016	**$ 112**	$ 59
	U.S. dollars	2007-2014	**102**	68
Total borrowed funds			**$ 214**	$ 127

At December 31, 2006, aggregate maturities of encumbrances on real estate are as follows:

Year	**Amount**
2007	**$ 18**
2008	**33**
2009	**15**
2010	**5**
2011	**47**
Thereafter	**96**
Total	**$ 214**

At December 31, 2006, the Company had $117 in a line of credit from a financial institution of which none was used during the year. The weighted average interest rates related to those borrowings is 0% (2.9% in 2005). This line of credit has a term of three years.

Interest expense for the borrowed funds was $25, $33 and $11 for 2006, 2005 and 2004, respectively.

13. Subordinated Debt

The following obligations are included in subordinated debt:

	Currency	Interest Rate	Maturity	**2006**	2005
Subordinated debentures (1)	Cdn. dollars	6.65%	2015	**$ 300**	$ 300
Subordinated debentures (2)	Cdn. dollars	6.15%	2022	**799**	799
Subordinated debentures (3)	Cdn. dollars	6.30%	2028	**150**	150
Subordinated notes	U.S. dollars	6.63%	2007	**32**	32
Subordinated notes	U.S. dollars	7.25%	2015	**175**	175
Total				**$ 1,456**	$ 1,456
Fair value				**$ 1,591**	$ 1,617

(1) 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.

(2) 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.

(3) Redeemable in whole or in part at any time.

Fair value is based on market prices for the same or similar instruments as appropriate. Interest expense on subordinated debt was $93, $96 and $107 for 2006, 2005 and 2004, respectively.

In 2004, the Company redeemed $250 principal amount of subordinated debentures prior to maturity. Redemption premiums of $17 ($12 net of taxes) were recorded in net investment income in 2004.

All subordinated debt qualifies as capital for Canadian regulatory purposes.

14. Non-controlling Interests in Subsidiaries

Non-controlling interests in subsidiaries on the consolidated balance sheets consists of non-controlling interests in MFS and McLean Budden Limited.

Non-controlling interests in net income of subsidiaries include non-controlling interests in MFS and McLean Budden Limited of $27 ($20 in 2005 and $21 in 2004). In addition, non-controlling interests in net income of subsidiaries also include dividends on preferred shares of Sun Life Assurance of $3 in 2005 and $7 in 2004. These preferred shares were redeemed by Sun Life Assurance on June 30, 2005, at $25 per share for a total of $150, excluding declared dividends also paid on redemption.

15. Share Capital and Normal Course Issuer Bid

A) SHARE CAPITAL

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 before issuing the shares, to fix the number, the consideration per share, the designation of, and the rights and restrictions of the Class A and Class B shares of each series, subject to the special rights and restrictions attached to all the Class A and Class B shares. The Board has authorized four series of Class A non-voting preferred shares.

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

	2006		2005		2004	
	Number of Shares	**Amount**	Number of Shares	Amount	Number of Shares	Amount
Preferred shares (in millions of shares)						
Balance, January 1	**29**	**$ 712**	—	$ —	—	$ —
Preferred shares issued, Class A, Series 1	**—**	**—**	16	400	—	—
Preferred shares issued, Class A, Series 2	**—**	**—**	13	325	—	—
Preferred shares issued, Class A, Series 3	**10**	**250**	—	—	—	—
Preferred shares issued, Class A, Series 4	**12**	**300**	—	—	—	—
Issuance costs, net of taxes	**—**	**(12)**	—	(13)	—	—
Balance, December 31	**51**	**$ 1,250**	29	$ 712	—	$ —
Common shares (in millions of shares)						
Balance, January 1	**582**	**$ 7,173**	592	$ 7,238	600	$ 7,289
Stock options exercised (Note 18)	**2**	**73**	3	99	2	75
Common shares purchased for cancellation	**(12)**	**(164)**	(13)	(164)	(10)	(126)
Balance, December 31	**572**	**$ 7,082**	582	$ 7,173	592	$ 7,238

On October 10, 2006, Sun Life Financial Inc. issued $300 Class A Non-cumulative Preferred Shares Series 4 at $25 per share. Holders are entitled to receive non-cumulative quarterly dividends of $0.278 per share, yielding 4.45% annually. Subject to regulatory approval, on or after December 31, 2011, Sun Life Financial Inc. may redeem these shares in whole or in part at a declining premium. On January 13, 2006, Sun Life Financial Inc. issued $250 Class A Non-cumulative Preferred Shares Series 3 at $25 per share. Holders are entitled to receive non-cumulative quarterly dividends of $0.278 per share, yielding 4.45% annually. Subject to regulatory approval, on or after March 31, 2011, Sun Life Financial Inc. may redeem these shares in whole or in part at a declining premium. Underwriting commissions of $12 (net taxes of $6) related to the 2006 preferred share issuances were deducted from preferred shares in the consolidated statements of equity.

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

On July 15, 2005, Sun Life Financial Inc. issued $325 of Class A Non-cumulative Preferred Shares Series 2 at $25 per share. Holders are entitled to receive non-cumulative quarterly dividends of $0.30 per share, yielding 4.8% annually. Subject to regulatory approval, on or after September 30, 2010, Sun Life Financial Inc. may redeem these shares in whole or in part at a declining premium. On February 25, 2005, Sun Life Financial Inc. issued $400 of Class A Non-cumulative Preferred Shares Series 1 at $25 per share. Holders are entitled to receive a non-cumulative quarterly dividend of $0.297 per share, yielding 4.75% annually. Subject to regulatory approval, on or after March 31, 2010, Sun Life Financial Inc. may redeem these shares, in whole or in part, at a declining premium. Underwriting commissions of $13 (net taxes of $7) related to the 2005 preferred share issuances were deducted from preferred shares in the consolidated statements of equity.

SUBSEQUENT EVENT

On February 2, 2007, Sun Life Financial Inc. issued $250 Class A Non-Cumulative Preferred Shares, Series 5, at $25 per share. Holders are entitled to receive non-cumulative quarterly dividends of $0.281 per share, yielding 4.50% annually. Subject to regulatory approval, on or after March 31, 2012, Sun Life Financial Inc. may redeem these shares in whole or in part at a declining premium.

B) NORMAL COURSE ISSUER BID

Sun Life Financial Inc. has repurchased common shares under several normal course issuer bid programs. Under each of these programs, Sun Life Financial Inc. was authorized to purchase, for cancellation, through the facilities of the Toronto Stock Exchange (TSX), approximately 5% of its issued and outstanding common shares at that time. The announcement dates, the time period covered and the maximum number of shares that could be repurchased under these programs are as follows:

Announcement Date	Period Covered	Maximum Shares Authorized for Purchase
February 12, 2003	February 12, 2003 to January 5, 2004	31 million
January 8, 2004	January 12, 2004 to January 11, 2005	30 million
January 6, 2005	January 12, 2005 to January 11, 2006	30 million
January 10, 2006	January 12, 2006 to January 11, 2007	29 million
Subsequent event:		
January 10, 2007	January 12, 2007 to January 11, 2008	29 million

Amounts repurchased under the normal course issuer bids are as follows:

	2006	2005	2004
Number of shares repurchased (in millions)	**12**	13	10
Amount (1)	**$ 575**	$ 544	$ 388
Average price per share	**$ 46.31**	$ 41.10	$ 37.93

(1) The total amount repurchased is allocated to common shares and retained earnings in the consolidated statements of equity. The amount recorded to common shares is based on the average cost per common share.

16. Operating Expenses

Operating expenses consist of the following:

	2006	2005	2004
Compensation costs	**$ 1,851**	$ 1,769	$ 1,636
Premises and equipment costs	**259**	287	293
Restructuring and other related charges	**1**	10	27
Capital asset depreciation and amortization (Note 9)	**67**	63	62
Other (1)	**850**	792	813
Total operating expenses	**$ 3,028**	$ 2,921	$ 2,831

(1) Other for 2004 includes a pre-tax provision for MFS regulatory issues and other actions of $66.

17. Earnings Per Share

Details of the calculation of the net income and the weighted average number of shares used in the earnings per share computations are as follows:

	2006	2005	2004
Common shareholders' net income	**$ 2,089**	$ 1,843	$ 1,680
Less: Effect of stock options of subsidiaries (1)	**11**	5	2
Common shareholders' net income on a diluted basis	**$ 2,078**	$ 1,838	$ 1,678
Weighted average number of shares outstanding for basic earnings per share (in millions)	**577**	587	599
Add: Adjustments relating to the dilutive impact of stock options (2), (3)	**3**	3	3
Weighted average number of shares outstanding on a diluted basis (in millions)	**580**	590	602

(1) A subsidiary of Sun Life Financial Inc. grants stock options exercisable for shares of the subsidiary and restricted stock awards of the subsidiary. If these outstanding stock options were exercised and the restricted stock awards were fully vested, the Company would record an increase in non-controlling interests, and therefore, a reduction in common shareholders' net income.

(2) The effect of stock options is calculated based on the treasury stock method requirements, which assume that unrecognized compensation as well as any proceeds from the exercise of the options would be used to purchase common shares at the average market prices during the period. Only stock options exercisable for shares of Sun Life Financial Inc. are included in the adjustment relating to the dilutive impact of stock options.

(3) Options exercisable for approximately 1 million common shares of Sun Life Financial Inc. with an average exercise price of $49.39 per share that were outstanding as at December 31, 2006, were excluded from the calculation of diluted earnings per share for 2006 because their exercise prices were greater than the average market price of common shares of Sun Life Financial Inc.

18. Stock-Based Compensation

A) 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 are granted at the closing price of the common shares on the TSX on the trading day preceding the grant date. The options granted under the stock option plans will vest at various times: over a four-year period under the Executive Stock Option Plan with the exception of two special grants with a five-year period; two years after the grant date under the Special 2001 Stock Option Award Plan; and over a two-year period under the Director Stock Option Plan. All options have a maximum exercise period of 10 years. The maximum 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

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

	2006		2005		2004	
	Number of Stock Options (Thousands)	**Weighted Average Exercise Price**	Number of Stock Options (Thousands)	Weighted Average Exercise Price	Number of Stock Options (Thousands)	Weighted Average Exercise Price
Balance, January 1	**10,049**	**$ 28.95**	12,457	$ 26.90	15,239	$ 27.17
Granted	**1,460**	**49.29**	1,339	40.80	173	36.67
Exercised	**(2,228)**	**26.57**	(2,999)	26.11	(2,267)	25.69
Forfeited	**(143)**	**37.47**	(748)	25.61	(688)	26.97
Balance, December 31	**9,138**	**$ 32.58**	10,049	$ 28.95	12,457	$ 26.90
Exercisable, December 31	**5,909**	**$ 28.39**	5,750	$ 27.59	6,318	$ 27.36

The aggregate intrinsic value, which is the difference between the market price of a Sun Life Financial Inc. common share and the exercise price of the stock option, for options exercisable as at December 31, 2006 is $124. The aggregate intrinsic value of options exercised in 2006 was $48 ($49 and $26 for 2005 and 2004, respectively). As at December 31, 2006, the number of stock options vested and expected to vest at the end of the relevant vesting period is 8,808 thousand . The aggregate intrinsic value of the options vested and expected to vest is $152, with a weighted average exercise price of $32.07 and a weighted average remaining term to maturity of 6.09 years.

18. Stock-Based Compensation (Cont'd)

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

	2006	2005	2004
Compensation expense recorded	**$ 13**	$ 9	$ 11
Income tax benefit on expense recorded	**$ 1**	$ 1	$ 2
Income tax benefit realized on exercised options	**$ 6**	$ 4	$ 3

The unrecognized compensation cost, adjusted for an estimate of future forfeitures, for non-vested stock options as at December 31, 2006 was $4. The weighted average recognition period over which this compensation cost is expected to be recognized is 2.88 years.

The stock options outstanding and exercisable as at December 31, 2006, by exercise price, are as follows:

	Options Outstanding			**Options Exercisable**		
Range of exercise prices	**Number of Stock Options (Thousands)**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**	**Number of Stock Options (Thousands)**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**
$19.05 to $24.28	**2,213**	**5.27**	**$ 22.20**	**1,831**	**5.09**	**$ 22.43**
$25.28 to $30.91	**2,751**	**5.05**	**28.45**	**2,310**	**4.86**	**28.57**
$31.00 to $33.20	**1,433**	**5.16**	**32.82**	**1,396**	**5.10**	**32.83**
$36.50 to $44.73	**1,345**	**7.98**	**40.46**	**370**	**7.62**	**39.87**
$46.80 to $49.90	**1,396**	**9.15**	**49.38**	**2**	**9.15**	**49.40**
	9,138	**6.19**	**$ 32.58**	**5,909**	**5.17**	**$ 28.39**

The weighted average fair values of the stock options, calculated using the Black-Scholes option-pricing model, granted during the year ended December 31, 2006, was $8.40 ($8.31 and $9.81 for 2005 and 2004, respectively). The Black-Scholes option-pricing model used the following assumptions to determine the fair value of options granted during the year:

Weighted average assumptions	**2006**	2005	2004
Risk-free interest rate	**4.1%**	4.3%	4.5%
Expected volatility	**16.0%**	20.0%	24.8%
Expected dividend yield	**2.2%**	2.4%	2.3%
Expected life of the option (in years)	**5.6**	5.6	7.0

B) 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)

C) 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 TSX. Any fluctuation in Sun Life Financial Inc.'s common share price changes the value of the units, which affects the Company's stock-based compensation expense. Upon redemption of these units, payments are made to the employees with a corresponding reduction in the accrued liability. The Company uses equity swaps and forwards to hedge its exposure to variations in cash flows due to changes in Sun Life Financial Inc.'s common share price for all of these plans.

Details of these plans are as follows:

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

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 generally hold RSUs for 36 months from the date of grant. RSUs earn dividend equivalents in the form of additional RSUs at the same rate as the dividends on common shares. The redemption value is the fair market value of an equal number of common shares.

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.

Additional information for other stock-based compensation plans: The activities in these plans and the liabilities accrued on the balance sheet are summarized in the following table.

	DSUs	RSUs	PSUs	Total
Number of units (in thousands)				
Units outstanding December 31, 2004	542	1,644	273	2,459
Units outstanding December 31, 2005	587	2,080	461	3,128
Units outstanding December 31, 2006	**588**	**2,138**	**611**	**3,337**
Liability accrued at December 31, 2006	**$ 29**	**$ 73**	**$ 21**	**$ 123**

Compensation cost and the tax benefits recorded as well as the tax benefits realized for other stock-based compensation plans are shown in the following table. Since expenses for the DSUs are accrued as part of incentive compensation in the year awarded, the expenses below do not include these accruals. The expenses presented in the following table include increases in the liabilities for DSUs, RSUs and PSUs due to changes in the fair market value of the common shares of Sun Life Financial Inc. and the accruals of the RSU and PSU liabilities over the vesting period, and exclude any reduction in expenses due to the impact of hedging.

	2006	2005	2004
Compensation expense recorded	**$ 50**	$ 46	$ 30
Income tax benefit on expense recorded	**$ 17**	$ 16	$ 11

18. Stock-Based Compensation (Cont'd)

The unrecognized liability and compensation cost for other stock-based compensation plan units outstanding as at December 31, 2006, including an adjustment for expected future forfeitures, as at December 31, 2006 was $37. The weighted average recognition period over which this compensation cost is expected to be recognized is 1.73 years. The unrecognized compensation cost and weighted average recognition period includes only costs related to the RSUs and PSUs since DSUs are vested at the date of grant. The Company paid $27 related to the liabilities of these plans in 2006 ($1 and $5 for 2005 and 2004, respectively).

D) STOCK-BASED COMPENSATION PLANS OF A SUBSIDIARY

A subsidiary of the Company grants stock options exercisable for shares of the subsidiary and restricted stock awards of the subsidiary. Restricted stock awards were granted in 2006 and 2005 and under the terms of this plan, shares are granted but vesting requirements must be met in order for employees to have full ownership rights to these shares. The restricted stock awards vest over a five-year period. The stock options granted in 2006 and 2005 vest over a four-year period. No stock-based compensation awards were granted in 2004.

The outstanding awards and expenses recorded to operating expenses in the consolidated statements of operations for these awards are summarized as follows:

	2006	2005	2004
Awards outstanding (in thousands)	**172**	192	140
Expense recorded	**$ 17**	$ 13	$ —
Income tax benefit recorded	**$ 6**	$ 5	$ —

19. Income Taxes

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

	2006	2005	2004
Canadian income tax expense (benefit):			
Current	**$ 418**	$ 127	$ 98
Future	**(271)**	151	95
Total	**147**	278	193
Foreign income tax expense (benefit):			
Current	**306**	327	(67)
Future	**(64)**	(74)	137
Total	**242**	253	70
Total income taxes expense	**$ 389**	$ 531	$ 263

The after-tax undistributed earnings of most non-Canadian subsidiaries would be taxed only upon their repatriation to Canada. The Company recognizes a future tax liability, if any, on these undistributed earnings to the extent that management expects they will be repatriated in the foreseeable future. To the extent repatriation of such earnings is not currently planned, the Company has not recognized the future tax liability. If the undistributed earnings of all non-Canadian subsidiaries not currently planned were repatriated, additional taxes that would be payable are estimated to be $105 as at December 31, 2006 ($75 and $63 in 2005 and 2004, respectively).

19. Income Taxes (Cont'd)

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

	2006		2005		2004	
		%		%		%
Total net income	**$ 2,144**		$ 1,876		$ 1,693	
Add: Income taxes expense	**389**		531		263	
Non-controlling interests in net income of subsidiaries	**27**		23		28	
Total net income before income taxes and non-controlling interests in net income of subsidiaries	**$ 2,560**		$ 2,430		$ 1,984	
Taxes at the combined Canadian federal and provincial statutory income tax rate	**$ 896**	**35.0**	$ 850	35.0	$ 655	33.0
Increase (decrease) in rate resulting from:						
Higher (lower) effective rates on income subject to taxation in foreign jurisdictions	**(239)**	**(9.3)**	(148)	(6.1)	(230)	(11.6)
Tax (benefit) cost of unrecognized losses	**(41)**	**(1.6)**	(35)	(1.5)	(19)	(1.0)
Tax exempt investment income	**(179)**	**(7.0)**	(116)	(4.8)	(133)	(6.7)
Changes to statutory income tax rates	**(41)**	**(1.6)**	—	—	—	—
Other	**(7)**	**(0.3)**	(20)	(0.7)	(10)	(0.5)
Company's effective worldwide income taxes	**$ 389**	**15.2**	$ 531	21.9	$ 263	13.2

In second quarter of 2006, the Canadian federal government and certain provinces reduced corporate income tax rates for years after 2007. The statutory income tax rate will decline gradually to 32% in 2010 as these rate reductions become effective. This reduction requires the Company to review its Canadian future tax liability on an ongoing basis. The re-measure in 2006 impacted both the business attributable to participating policyholders and shareholders. The participating policyholders' benefited by $36, while the increase to shareholders' income was limited to $5.

The Company has accumulated tax losses, primarily in the United Kingdom, totalling $1,111 ($893 in 2005). 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 $155 ($78 in 2005) 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 are the future tax assets and liabilities in the consolidated balance sheets by source of temporary differences:

	2006		2005	
	Assets	**Liabilities**	Assets	Liabilities
Investments	**$ 61**	**$ 272**	$ 198	$ 395
Actuarial liabilities	**123**	**(7)**	18	(14)
Deferred acquisition costs	**325**	**—**	301	9
Losses available for carry forward	**216**	**(15)**	177	(2)
Other	**99**	**(24)**	74	114
	824	**226**	768	502
Valuation allowance	**(77)**	—	(101)	—
Total	**$ 747**	**$ 226**	$ 667	$ 502

19. Income Taxes (Cont'd)

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

	2006	2005	2004
Investments	**$ 14**	$ (107)	$ (193)
Actuarial liabilities	**(101)**	68	126
Deferred acquisition costs	**(45)**	2	97
Losses (incurred) utilized	**(75)**	10	220
Other	**(128)**	104	(18)
Future income tax expense (benefit)	**$ (335)**	$ 77	$ 232

20. Commitments, Guarantees and Contingencies

A) LEASE COMMITMENTS

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

	2007	**2008**	**2009**	**2010**	**2011**	**Thereafter**
Future rental payments	**$ 98**	**$ 70**	**$ 59**	**$ 50**	**$ 40**	**$ 141**

B) 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, 2006, there were outstanding contractual commitments as follows:

	Expires in 30 Days	**Expires in 31 to 365 Days**	**Expires in 2008 or Later**	**Total**
Contractual commitments	**$ 161**	**$ 894**	**$ 311**	**$ 1,366**

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

C) LETTERS OF CREDIT

The Company issues commercial letters of credit in the normal course of business. At December 31, 2006, letters of credit in the amount of $1,122 are outstanding.

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

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, trade-mark licensing agreements, underwriting and agency agreements, information technology agreements, distribution agreements, financing agreements and service agreements. These agreements may require the Company to compensate the counterparties for damages, losses, or costs incurred by the counterparties as a result of breaches in representation, changes in regulations (including tax matters) or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The Company has also agreed to indemnify its directors and certain of its officers and employees in accordance with the Company's by-laws. These indemnification provisions will vary based upon the nature and terms of the agreements. In many cases, these indemnification provisions do not contain limits on the Company's liability, and the occurrence of contingent events that will trigger payment under these indemnities is difficult to predict. As a result, the Company cannot estimate its potential liability under these indemnities. The Company believes that the likelihood of conditions arising that would trigger these indemnities is remote and, historically, the Company has not made any significant payment under such indemnification provisions.

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

E) LEGAL AND REGULATORY PROCEEDINGS

As previously disclosed, Sun Life Financial Inc. and MFS have been named as defendants in multiple lawsuits in U.S. federal and state courts (commenced as class actions or individual actions, as ERISA actions, see below, or as derivative actions), relating to the matters that led to the settlements between MFS and U.S. regulators in 2004. The various lawsuits generally allege that some or all of the defendants (i) permitted or acquiesced in market timing and/or late trading in some of the MFS funds and, inadequately disclosed MFS's internal policies concerning market timing and such matters, (ii) received excessive compensation as fiduciaries to the MFS funds, or (iii) permitted or acquiesced in the improper use of fund assets by MFS to support the distribution of MFS fund shares and inadequately disclosed MFS's use of fund assets in this manner. The plaintiffs in the lawsuits relating to market timing and related matters generally seek injunctive relief including removal of the named Trustees, adviser and distributor, rescission of contracts and 12b-1 Plans, disgorgement of fees and profits, monetary damages, punitive damages, attorney's fees and costs, and other equitable and declaratory relief. The plaintiffs in the lawsuits alleging improper brokerage allocation practices and excessive compensation generally seek compensatory damages, punitive damages, recovery of fees, rescission of contracts, an accounting, restitution, declaratory relief, equitable and/or injunctive relief and attorney's fees and costs. The actions assert that some or all of the defendants violated U.S. federal securities laws, the *Employee Retirement Income Security Act of 1974 (ERISA)* , as well as fiduciary duties and other violations of common law. MFS continues to defend these actions. While it is not possible to predict the resolution of these actions. Sun Life Financial Inc. believes, based on the information currently available to it, that the ultimate resolution of these actions will not have a material adverse effect, individually or in the aggregate, on its consolidated financial position or results of operations.

In addition, Sun Life Financial Inc. and its subsidiaries are engaged in other legal actions which are not expected to have a material adverse effect, individually or in the aggregate, on the consolidated financial position or results of operations of Sun Life Financial Inc.

F) PROVISIONS IN THE UNITED KINGDOM

The Company's United Kingdom operations continue to be subject to regulatory overview in the United Kingdom, including the handling of complaints about mortgage endowments. Endowment policies were sometimes sold to provide customers with a method of repaying mortgage debt at the end of a mortgage term. The Company has regularly engaged in discussions with U.K. regulators with respect to these policies, certain pension policies and other matters.

The Company has provisions for future costs and expenses relating to all reviews of past mortgage endowment and pension business sold in the United Kingdom, and these are components of both actuarial liabilities and other liabilities. At December 31, 2006, the combined provision was $39 ($73 in 2005).

21. Pension Plans and Other Post-Retirement Benefits

The following tables set forth the status of the defined benefit pension and other post-retirement benefit plans.

	Pension		Post-Retirement	
	2006	2005	**2006**	2005
Change in projected benefit obligation:				
Projected benefit obligation, January 1	**$ 2,490**	$ 2,190	**$ 338**	$ 293
Service cost	**56**	56	**9**	7
Interest cost	**124**	123	**17**	17
Actuarial losses (gains)	**(25)**	341	**(27)**	39
Benefits paid	**(100)**	(87)	**(9)**	(12)
Curtailments, settlements and plan amendments	**7**	(34)	**—**	(4)
Effect of changes in currency exchange rates	**91**	(99)	**—**	(2)
Projected benefit obligation, December 31 (1), (2)	**$ 2,643**	$ 2,490	**$ 328**	$ 338
Accumulated benefit obligation, December 31 (3)	**$ 2,387**	$ 2,343		
Change in plan assets:				
Fair value of plan assets, January 1	**$ 2,264**	$ 2,177	**$ —**	$ —
Net actual return on plan assets	**242**	231	**—**	—
Employer contributions	**17**	35	**11**	12
Benefits paid	**(100)**	(87)	**(11)**	(12)
Effect of changes in currency exchange rates	**79**	(92)	**—**	—
Fair value of plan assets, December 31 (1)	**$ 2,502**	$ 2,264	**$ —**	$ —
Net funded status, December 31	**$ (141)**	$ (226)	**$ (328)**	$ (338)
Unamortized net actuarial loss	**474**	601	**49**	80
Unamortized past service cost	**14**	8	**(20)**	(22)
Unamortized transition asset	**(92)**	(108)	**(7)**	(9)
Contributions (transfers), October 1 to December 31 (1)	**(1)**	(1)	**1**	1
Accrued benefit asset (liability), December 31 (1)	**$ 254**	$ 274	**$ (305)**	$ (288)
Balance sheet classification of accrued benefit asset (liability), December 31:				
Other assets	**$ 454**	$ 456	**$ —**	$ —
Other liabilities	**$ 200**	$ 182	**$ 305**	$ 288
Pension plans with projected benefit obligations in excess of plan assets:				
Projected benefit obligations	**$ 1,539**	$ 1,715		
Plan assets	**$ 1,264**	$ 1,364		

Weighted average assumptions:

	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	**5.2%**	**5.1%**	**5.1%**	**5.1%**
Expected long-term rate of return on plan assets	**7.5%**	**7.4%**		
Rate of compensation increase	**3.7%**	**3.6%**		

(1) The measurement date for most of the plans in the United States is September 30. For all other defined benefit plans, the measurement date is December 31. For plans with a September 30 measurement date, contributions from October 1 to December 31 are reflected in the balance sheet for the current year but excluded from the September 30 plan asset balance.

(2) The date of the most recent actuarial valuation for funding purposes was January 1, 2006. The date of the next required actuarial valuation for funding purposes is January 1, 2007.

(3) The accumulated benefit obligation is smaller than the projected benefit obligation since it does not recognize projected future compensation increases.

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

Discount rate, return on plan assets and rate of compensation increase:

The major economic assumptions which are used in determining the actuarial present value of the accrued benefit obligations vary by country. In determining the discount rate for the Canadian plans, a yield curve for long-term Corporate "AA" bonds is developed from the Government of Canada yield curve by adding an appropriate adjustment to reflect the risk characteristics of high-quality Corporate bonds. This curve is then used to calculate a level discount rate by reference to the spot yields on high-quality, non-callable, zero-coupon Corporate bonds with maturities that match the estimated benefit cash flows for the plan.

In determining the discount rate for the plans in the United States, a benchmark rate is used by referencing various published indexes such as the Merrill Lynch 10+ High Quality Index, 30-year Treasury Bonds, Moody's Aa, and Moody's Baa. The discount rate assumption is selected after considering the projected cash flows paid from the Company's U.S. benefit plans based on plan demographics, plan provisions, and the economic environment as of the measurement date.

The assumed rate of return on assets for pension cost purposes is the weighted average of expected long-term asset return assumptions by asset class and is selected from a range of possible future asset returns.

The rate of compensation increase is a long-term rate based on current expectations of future pay increases.

	Pension			Post-Retirement (1)		
	2006	2005	2004	**2006**	2005	2004
Components of defined benefit cost recognized:						
Service cost, curtailments and settlements	**$ 56**	$ 56	$ 57	**$ 9**	$ 7	$ 7
Plan amendments	**8**	—	1	**—**	(4)	(17)
Interest cost	**124**	123	121	**17**	17	17
Actual return on plan assets	**(242)**	(231)	(201)	**—**	—	—
Actuarial losses (gains)	**(25)**	341	84	**(27)**	39	9
Benefit cost before adjustments to recognize the long-term nature of defined benefit plans	**$ (79)**	$ 289	$ 62	**$ (1)**	$ 59	$ 16
Adjustments to recognize the long-term nature of defined benefit plans:						
Difference between expected and actual return on plan assets for year	**$ 73**	$ 71	$ 41	**$ —**	$ —	$ —
Difference between actuarial losses (gains) recognized and actual actuarial losses (gains) on accrued benefit obligation for year	**55**	(342)	(74)	**31**	(37)	(7)
Difference between amortization of past service costs for year and actual plan amendments for year	**(7)**	1	1	**(2)**	2	16
Amortization of transition obligation (asset)	**(17)**	(19)	(20)	**(2)**	(2)	(2)
Total adjustments to defer costs to future periods	**$ 104**	$ (289)	$ (52)	**$ 27**	$ (37)	$ 7
Total benefit cost recognized	**$ 25**	$ —	$ 10	**$ 26**	$ 22	$ 23

(1) The assumed medical cost trend rate used in measuring the accumulated post-retirement benefits obligation in Canada in 2006 was 10%, decreasing by 0.5% each year to an ultimate rate of 5.5% per year. In the United States in 2006, the assumed rate was 9%, decreasing evenly to 5% by 2011, and remaining at that level thereafter. The assumed dental cost trend rate is 4.5% in Canada and 5% in the United States.

21. 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	1% Decrease
Effect on post-retirement benefit obligations	$ 40	$ (35)
Effect on aggregated service and interest costs	$ 4	$ (3)

Composition of fair value of plan assets, December 31:

	2006	2005
Equity investments	51%	50%
Fixed income investments	41%	43%
Real estate investments	3%	2%
Other	5%	5%
Total composition of fair value of plan assets	100%	100%

Target allocation of plan assets, December 31:

	2006	2005
Equity investments	46%	46%
Fixed income investments	45%	45%
Real estate investments	5%	5%
Other	4%	4%
Total	100%	100%

The assets of the defined benefit pension plans are primarily held in trust for plan members, and are managed within the provisions of the plans' investment policies and procedures. Diversification of the investments is used to minimize credit, market and foreign currency risks. Due to the long-term nature of the pension obligations and related cash flows, asset mix decisions are based on long-term market outlooks within the specified tolerance ranges. The long-term investment objectives of the defined benefit pension plans are to exceed the real rate of investment return assumed in the actuarial valuation of plan liabilities. Over shorter periods, the objective of the defined benefit pension plans is to exceed the average market returns of a well-diversified portfolio. Liquidity is managed with consideration to the cash flow requirements of the liabilities.

Permitted investments of the defined benefit pension plans include guaranteed funds, annuities, and pooled and non-pooled variable accumulation funds in addition to any other investment vehicle approved by the plan sponsors that are eligible under pension regulations. The policy statement for each fund or manager mandate either prohibits, or permits, within specified constraints, the use of derivative instruments such as options and futures. The use of derivative instruments is limited to unleveraged substitution and hedging strategies. The defined benefit pension plans may not invest in securities of a related party or lend to any related party unless such securities are publicly traded and selected by the manager, acting independently on behalf of all that manager's discretionary accounts or pooled funds, which have mandates similar to that of the Company's defined benefit pension plans.

The following tables set forth the expected contributions and expected future benefit payments of the defined benefit pension and other post-retirement benefit plans.

	Pension	Post-Retirement	Total
Expected contributions for the next 12 months	$ 20	$ 13	$ 33

Expected future benefit payments

	2007	2008	2009	2010	2011	2012 -2016
Pension	$ 85	$ 88	$ 93	$ 97	$ 100	$ 613
Post-retirement	12	13	13	14	14	73
Total	$ 97	$ 101	$ 106	$ 111	$ 114	$ 686

The total contribution made by the Company to defined contribution plans was $51 in 2006, $38 in 2005 and $35 in 2004.

22. Foreign Exchange Gain

The net foreign exchange gain for the dividends received from its self-sustaining foreign operations of $4, equivalent to the proportionate amount of the foreign exchange gain accumulated in the currency translation account, was recognized in net investment income for the year ended December 31, 2006 ($22 in 2005 and nil in 2004, respectively). The foreign exchange gain amount recognized in 2005 also includes amount of $74 recognized as a result of the reduction of its net investment in its United Kingdom self-sustaining foreign operation of 450 U. K. Pounds and the foreign exchange loss from the disposal of Cuprum of $52 as described in Note 3.

23. Variable Interest Entities

The Company has a greater than 20% involvement in a number of variable interest entities (VIEs) where the Company does not have a controlling financial interest, including being a creditor in trusts, limited partnerships, limited liability companies and special purpose entities. These VIEs were used to finance commercial mortgages, franchise receivables, auto receivables, retail stores, equipment, and to make private debt and equity investments. The Company's maximum exposure to loss related to all of these investments is $342, which is the carrying amount of these assets.

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

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

A) RECONCILIATION OF SELECTED CDN. GAAP FINANCIAL STATEMENT INFORMATION TO U.S. GAAP

i) Consolidated statements of operations:

	2006		2005		2004	
	Cdn. GAAP	**U.S. GAAP**	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP
REVENUE						
Premiums	**$14,609**	**$ 7,791**	$12,940	$ 7,135	$12,903	$ 6,883
Net investment income	**6,664**	**6,022**	6,079	6,030	5,924	5,693
Net realized gains		**337**		788		793
Fee income	**3,014**	**3,077**	2,899	2,965	2,903	3,098
	24,287	**17,227**	21,918	16,918	21,730	16,467
POLICY BENEFITS AND EXPENSES						
Payments to policyholders, beneficiaries and depositors	**13,730**	**8,860**	13,506	8,920	13,114	9,218
Increase in actuarial liabilities	**2,525**	**1,602**	872	1,274	1,425	835
Acquisition expense amortization	**105**	**772**	138	439	179	473
Other expenses	**5,367**	**4,166**	4,972	3,979	5,028	3,838
	21,727	**15,400**	19,488	14,612	19,746	14,364
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	**2,560**	**1,827**	2,430	2,306	1,984	2,103
Income taxes expense	**389**	**243**	531	445	263	403
Non-controlling interests in net income of subsidiaries	**27**	**27**	23	23	28	35
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES	**2,144**	**1,557**	1,876	1,838	1,693	1,665
Cumulative effect of accounting changes, net of taxes (Section D)		**4**		—		(179)
TOTAL NET INCOME	**2,144**	**1,561**	1,876	1,838	1,693	1,486
Less participating policyholders' net income	**7**	**—**	9	—	13	—
SHAREHOLDERS' NET INCOME	**2,137**	**1,561**	1,867	1,838	1,680	1,486
Less preferred shareholder dividends	**48**	**48**	24	24	—	—
COMMON SHAREHOLDERS' NET INCOME	**$ 2,089**	**$ 1,513**	$ 1,843	$ 1,814	$ 1,680	$ 1,486
Earnings per share						
Basic						
Common shareholders' net income excluding cumulative effect of accounting changes	**$ 3.62**	**$ 2.61**	$ 3.14	$ 3.09	$ 2.81	$ 2.78
Cumulative effect of accounting changes		**0.01**		—		(0.30)
Common shareholders' net income	**$ 3.62**	**$ 2.62**	$ 3.14	$ 3.09	$ 2.81	$ 2.48
Diluted						
Common shareholders' net income excluding cumulative effect of accounting changes	**$ 3.58**	**$ 2.58**	$ 3.12	$ 3.07	$ 2.79	$ 2.77
Cumulative effect of accounting changes		**0.01**		—		(0.30)
Common shareholders' net income	**$ 3.58**	**$ 2.59**	$ 3.12	$ 3.07	$ 2.79	$ 2.47
Weighted average shares outstanding in millions						
Basic	**577**	**577**	587	587	599	599
Diluted	**580**	**580**	590	590	602	602

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

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 OCI. OCI 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.

	2006	2005	2004
Total shareholders' net income based on U.S. GAAP	**$ 1,561**	$ 1,838	$ 1,486
Other comprehensive income:			
Change in unrealized foreign currency translation gains and losses*	**176**	(308)	(437)
Unrealized gains on available-for-sale securities	**(76)**	789	721
Reclassification adjustment for (gains) losses included in net income	**(20)**	(702)	(354)
Changes to deferred acquisition costs and other liabilities	**328**	19	(535)
Changes in gains on derivatives designated as cash flow hedges	**4**	12	4
Impact of adopting SFAS 158 (1)			
Changes in unamortized net actuarial loss	**(352)**	—	—
Changes in past service cost	**10**	—	—
Changes in transition asset	**10**	—	—
Additional minimum pension liability (2)	**187**	(90)	(30)
Other	**(8)**	(11)	—
Income taxes	**140**	(18)	4
Shareholders' comprehensive income (loss)	**$ 1,960**	$ 1,529	$ 859

(1) Refer to section 24 B and 24 D (iv) for more details.

(2) The additional minimum pension liability for 2006 includes the impact of adopting FAS 158.

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

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

iii) Consolidated balance sheets:

	2006		2005	
	Cdn. GAAP	**U.S. GAAP**	Cdn. GAAP	U.S. GAAP
ASSETS				
Bonds	**$ 69,230**		$ 66,154	
Bonds – available-for-sale (amortized cost: 2006 – $57,825; 2005 – $57,870)		**$ 60,872**		$ 61,417
Bonds – held-for-trading		**6,668**		4,377
Mortgages and corporate loans	**15,993**	**20,793**	14,561	18,639
Stocks	**4,899**		3,856	
Stocks – available-for-sale (amortized cost: 2006 – $3,025; 2005 – $2,209)		**3,879**		2,636
Stocks – held-for-trading		**1,665**		1,350
Real estate, net of accumulated depreciation (accumulated depreciation: 2006 – $409; 2005 – $368)	**3,825**	**2,611**	3,241	2,187
Cash and cash equivalents	**4,936**	**4,926**	2,740	2,733
Short-term securities (1)	**1,303**	**1,299**	2,351	2,349
Policy loans	**3,105**	**3,105**	2,989	2,989
Other invested assets	**2,908**	**5,688**	2,700	4,732
Invested assets	**106,199**	**111,506**	98,592	103,409
Goodwill	**5,981**	**4,664**	5,963	4,645
Intangible assets	**777**	**771**	801	803
Deferred acquisition costs	**185**	**6,495**	271	6,223
Future income taxes (2)	**747**	**240**	667	153
Other assets	**3,942**	**7,654**	4,572	8,353
Total other assets	**11,632**	**19,824**	12,274	20,177
Segregated funds assets (3)		**70,559**		60,854
Total consolidated assets	**$117,831**	**$201,889**	$110,866	$184,440
Segregated funds net assets (3)	**$ 70,789**		$ 60,984	
LIABILITIES AND EQUITY				
Actuarial liabilities	**$ 79,286**	**$ 50,906**	$ 75,777	$ 48,597
Contract holder deposits		**38,666**		36,971
Other policy liabilities	**1,750**	**3,289**	1,712	3,278
Amounts on deposit	**3,599**	**3,588**	3,382	3,375
Deferred net realized gains	**4,152**		3,859	
Senior debentures	**3,491**	**3,491**	2,492	2,492
Future income taxes (2)	**226**	**598**	502	1,131
Other liabilities	**6,608**	**10,746**	6,090	9,048
Total general fund liabilities	**99,112**	**111,284**	93,814	104,892
Subordinated debt	**1,456**	**1,456**	1,456	1,456
Non-controlling interests in subsidiaries	**79**	**79**	50	50
Segregated funds liabilities (3)		**70,559**		60,854
Equity	**17,184**	**18,511**	15,546	17,188
Total consolidated liabilities and equity	**$117,831**	**$201,889**	$110,866	$184,440
Segregated funds contract liabilities (3)	**$ 70,789**		$ 60,984	

(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.

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

iv) Consolidated statements of equity:

	2006		2005	
	Cdn. GAAP	**U.S. GAAP**	Cdn. GAAP	U.S. GAAP
PARTICIPATING POLICYHOLDERS' CAPITAL ACCOUNT:				
Balance, January 1	**$ 94**	**$**	$ 85	$
Net income attributed to participating policyholders	**7**		9	
Balance, December 31	**101**		94	
SHAREHOLDERS' EQUITY:				
PREFERRED SHARES				
Balance, January 1	**712**	**712**	—	—
Shares issued, net of issuance costs	**538**	**538**	712	712
Balance, December 31	**1,250**	**1,250**	712	712
PAID IN CAPITAL				
Balance, January 1	**7,239**	**13,148**	7,308	13,345
Stock options exercised (2)	**61**	**61**	78	78
Common shares purchased for cancellation (1)	**(164)**	**(278)**	(164)	(301)
Stock option compensation (3)	**18**	**16**	17	17
Subsidiary equity transaction		**34**		9
Balance, December 31	**7,154**	**12,981**	7,239	13,148
RETAINED EARNINGS				
Balance, January 1	**9,001**	**3,897**	8,119	2,907
Net income for the period attributed to shareholders	**2,137**	**1,561**	1,867	1,838
Dividends on common shares	**(663)**	**(663)**	(581)	(581)
Dividends on preferred shares	**(48)**	**(48)**	(24)	(24)
Common shares purchased for cancellation	**(411)**	**(297)**	(380)	(243)
Balance, December 31	**10,016**	**4,450**	9,001	3,897
CURRENCY TRANSLATION ACCOUNT				
Balance, January 1	**(1,500)**	**(1,578)**	(1,097)	(1,270)
Net adjustment for foreign exchange gain	**(4)**		(22)	—
Changes for the period	**167**	**176**	(381)	(308)
Balance, December 31	**(1,337)**	**(1,402)**	(1,500)	(1,578)
ACCUMULATED UNREALIZED GAINS AND LOSSES				
Unrealized gains on available-for-sale securities		**2,744**		2,696
Unamortized net actuarial loss		**(240)**		—
Unamortized past service cost		**7**		—
Unamortized transition asset		**7**		—
Gains on derivatives designated as cash flow hedges		**3**		6
Deferred acquisition costs and other liabilities		**(1,289)**		(1,557)
Additional minimum pension liability		**—**		(136)
Balance, December 31		**1,232**		1,009
TOTAL EQUITY	**$17,184**	**$18,511**	$15,546	$17,188

(1) Shown as share capital under Cdn. GAAP.

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

(3) Shown as contributed surplus under Cdn. GAAP.

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

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

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

	2006	2005	2004
Total net income in accordance with Cdn. GAAP	**$ 2,144**	$ 1,876	$ 1,693
Adjustments related to:			
Investments			
Bonds	**(217)**	208	266
Stocks and segregated fund units	**75**	265	229
Derivative instruments	**(65)**	493	117
Real estate	**(95)**	(54)	5
Total investments	**(302)**	912	617
Deferred acquisition costs			
Deferred acquisition costs — Deferred	**897**	720	909
Deferred acquisition costs — Amortization and interest	**(665)**	(301)	(290)
Total deferred acquisition costs	**232**	419	619
Actuarial liabilities and other policyholder revenues and expenses			
Premium and fees revenue	**(6,466)**	(5,448)	(5,528)
Payments to policyholders, beneficiaries and depositors	**4,870**	4,586	3,896
Actuarial liabilities	**923**	(402)	590
Total actuarial liabilities and other policyholder revenues and expenses	**(673)**	(1,264)	(1,042)
Other	**10**	(191)	(82)
Income tax effect of above adjustments	**146**	86	(140)
Change in accounting policy	**4**	**—**	(179)
Total net income in accordance with U.S. GAAP	**$ 1,561**	$ 1,838	$ 1,486

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

B) SIGNIFICANT ACCOUNTING POLICY DIFFERENCES BETWEEN CDN. GAAP AND U.S. GAAP APPLICABLE TO THE COMPANY

The Cdn. GAAP accounting and actuarial policies are discussed in Notes 1 and 10, 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 instruments, included with bonds under Canadian GAAP, are reclassified to mortgages and corporate loans under U.S. GAAP, 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 result 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 result in a write-down charged to income.

24. Summary of 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. Certain derivative instruments are used for risk management purposes 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. Foreign exchange exposure of an anticipated purchase transaction may qualify for hedge accounting.	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 or loss on the derivative as well as the adjustment to the carrying value of the hedged item are recognized in income. For 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. Embedded derivatives are separately accounted for as stand- alone derivatives and carried at fair values with the changes in fair value recorded in income when they are not clearly and closely related to their host instruments. Foreign exchange exposure of an anticipated purchase transaction would not qualify for hedge accounting.
Deferred acquisition costs	Costs of acquiring new insurance and annuity business, primarily commissions; underwriting; issue expenses and agency expenses are implicitly recognized in actuarial liabilities for most of the policies.	Acquisition costs are deferred and recorded as an asset. Amortization of such costs is dependent on the product to which the costs relate. For participating life insurance contracts, except for participating policies in the United Kingdom, amortization is based on a constant percentage of gross margin. For universal life and investment-type contracts, amortization is based on a constant percentage of gross profit. For other non-participating products, including term, group and disability insurance, 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.

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

	Cdn. GAAP	U.S. GAAP
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.
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.

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

	Cdn. GAAP	U.S. GAAP
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 (i) an accrued benefit asset is recorded, or (ii) an accrued benefit liability is recorded for an amount less than the unfunded ABO. The additional minimum liability is calculated by reference to the excess of the ABO, which is smaller 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, and/or unamortized transitional obligation with any remaining excess recorded as part of other comprehensive income. The additional minimum liability is recorded as an accrued benefit liability. In 2006, the Financial Accounting Standards Board (FASB) issued FASB statement No.158, Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans. This new standard eliminates the requirement to record the additional minimum liability effective for the 2006 consolidated financial statements. More details on the implications of adopting this new standard are provided in Note 24 D (iv).
Cumulative translation adjustment	A proportionate amount of the exchange gain or loss accumulated in the separate component of shareholders' equity is reflected in net income when there is a reduction in the Company's net investment in a foreign operation resulting from a capital transaction, dilution, or sale of all or part of the foreign operation.	A proportionate amount of exchange gains or losses accumulated in the separate component of shareholders' equity is reflected in net income only when there is a reduction in the Company's net investment in the foreign operation resulting from the sale of all or part of the foreign operation.

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

	Cdn. GAAP	U.S. GAAP
Guarantees	Disclosure is required for all significant guarantees provided by the Company.	In addition to the disclosure requirements, for all guarantees issued or modified after December 31, 2002, recognition of a liability is required at the fair value of the obligation assumed.
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 (vii) 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. The Company's investment in separate accounts is included in other invested assets, consistent with Cdn. GAAP.

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

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

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

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

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

	2006	2005	2004
Bonds:			
Gross realized gains	**$ 383**	$ 618	$ 698
Gross realized losses	**$ (256)**	$ (122)	$ (216)
Stocks:			
Gross realized gains	**$ 193**	$ 217	$ 233
Gross realized losses	**$ (78)**	$ (65)	$ (51)

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

	2006	2005	2004
Bonds	**$ (80)**	$ 12	$ 41
Stocks	**$ 301**	$ 348	$ 201

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

	2006	2005	2004
Depreciation expense	**$ 56**	$ 56	$ 59

iv) Derivatives: When the Company enters into a derivative contract, management decides if the derivative should be designated as a hedge of an identified risk exposure and documented in order to obtain hedge accounting following the requirements of Statement of Financial Accounting Standards No. 133 (SFAS 133), Accounting for Derivative Instruments and Hedging Activities. With the exceptions noted below, hedge accounting is not pursued under SFAS 133 for most derivative instruments, and the derivatives are recorded on the balance sheet at their fair values with changes in their fair values reported in net investment income. As at December 31, 2005, the Company had equity forwards designated as cash flow hedges of the anticipated payments of awards under certain stock-based compensation plans expected to occur in 2007, 2008 and 2009. The difference between the forward price and the spot price of these forwards is excluded from the assessment of hedge effectiveness and was recorded in net investment income in 2004, 2005 and 2006. A portion of the amount included in OCI, related to these forwards, is reclassified to income as the liability is accrued for the stock-based compensation awards over the three-year vesting period. In 2004, the Company had designated certain interest rate swaps as cash flow hedges of the interest rate risk relating to a floating rate loan. These swaps expired in 2005.

Additional information pertaining to these cash flow hedges is as follows:

	2006	2005	2004
Change in fair value	**$ 1**	$ 8	$ 3
Amount reclassified from OCI to income during the reporting period	**$ 4**	$ 4	$ 1
Amount expected to be reclassified to income during the next 12 months	**$ 6**	$ 3	$ 1
Component of loss excluded from hedge effectiveness assessment	**$ 1**	$ 2	$ 2

The above numbers are all net of income taxes. There was no ineffectiveness from these hedges reported to net income in 2004, 2005 and 2006.

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

In 2004, 2005 and 2006, the Company designated certain cross currency interest rate swaps and forwards as hedges of the currency exposure of net investments in foreign operations. The gain (loss) on these derivatives of $60 is included in the foreign currency translation account movement for 2006 ($46 in 2005 and $85 in 2004) in the statements of comprehensive income. In 2005 and 2006, the Company designated certain cross currency interest rate swaps as fair value hedges of the foreign currency exposure on foreign currency bonds. There was no ineffectiveness recorded to net income for any of these hedges.

v) Unrealized loss positions 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 available-for-sale securities have been in a continuous unrealized loss position, at December 31, 2006.

	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	$9,576	$(122)	$11,517	$(398)	$21,093	$(520)
Common stock	41	(1)	12	(2)	53	(3)
Total temporarily impaired securities	$9,617	$(123)	$11,529	$(400)	$21,146	$(523)

Available-for-sale debt securities have generally been identified as temporarily impaired if their amortized cost as at December 31, 2006, 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 and/or the Company can hold these investments until recovery in value.

A total of 3,280 debt securities were in an unrealized loss position at December 31, 2006, of which 1,293 were in a continuous loss position for less than 12 months and 1,987 positions for 12 months or more. Of the 1,293 debt securities, unrealized losses less than 12 months included 985 positions with an aggregate fair value of $3,920 (1,212 positions with an aggregate fair value of $2,688 for 12 months or more) having unrealized losses of less than one hundred thousand dollars per individual holding. A total of 22 common stock positions were in a loss position at December 31, 2006 of which 18 were in a continuous loss position for less than 12 months and 4 positions for 12 months or more. Of the 18 common stock positions, unrealized losses less than 12 months included 14 positions with an aggregate fair value of $28 (3 positions with an aggregate fair value of nil for 12 months or more) having unrealized losses of less than one hundred thousand dollars per individual holding.

vi) Stock-based compensation: The intrinsic value method of accounting was used to account for stock options that were granted in 2001 under Cdn. GAAP 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. If the fair value method had been used for options granted prior to 2002, net income for 2004 would have been reduced by $2 with no impact on basic or diluted earnings per share. Income for 2005 and 2006 would not have been impacted.

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

vii) 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:

	2006			
	Future Income Tax Asset(1)		**Future Income Tax Liability(1)**	
	Cdn. GAAP	**U.S. GAAP**	**Cdn. GAAP**	**U.S. GAAP**
Investments	**$ 61**	**$ (52)**	**$ 272**	**$ 1,550**
Actuarial liabilities	**123**	**1,343**	**(7)**	**(1,639)**
Deferred acquisition costs	**325**	**(933)**	**—**	**635**
Losses available for carry forward	**216**	**16**	**(15)**	**(215)**
Other	**99**	**(130)**	**(24)**	**202**
Future tax asset/liability before valuation allowance	**824**	**244**	**226**	**533**
Valuation allowance	**(77)**	**(4)**	**—**	**65**
Total	**$ 747**	**$ 240**	**$ 226**	**$ 598**

	2005			
	Future Income Tax Asset (1)		Future Income Tax Liability (1)	
	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP
Investments	$ 198	$ (208)	$ 395	$ 1,852
Actuarial liabilities	18	978	(14)	(2,159)
Deferred acquisition costs	301	(506)	9	1,081
Losses available for carry forward	177	14	(2)	(166)
Other	74	(119)	114	478
Future tax asset/liability before valuation allowance	768	159	502	1,086
Valuation allowance	(101)	(6)	—	45
Total	$ 667	$ 153	$ 502	$ 1,131

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

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

viii) Acquisition: The Company acquired all of the outstanding common shares of CMG Asia effective October 18, 2005, 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.

	CMG Asia	
	Cdn. GAAP	U.S. GAAP
Invested assets acquired	$ 1,548	$ 1,548
Other assets acquired(1)	122	422
Segregated funds assets acquired	—	532
	1,670	2,502
Actuarial liabilities and other policy liabilities acquired	1,453	1,344
Amounts on deposit acquired	159	159
Other liabilities acquired	40	38
Segregated funds liabilities acquired	—	532
	1,652	2,073
Net balance sheet assets acquired	$ 18	$ 429
Considerations given:		
Cash cost of acquisition	$ 554(2), (3)	$ 532(3)
Transaction and other related costs	9	9
	$ 563	$ 541
Goodwill on acquisition	$ 545(3)	$ 112(3)

(1) Other assets acquired included value of business acquired of $287 under U.S. GAAP.

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

(3) Includes $19 for the impact of change in value of the receivable from CBA.

The following supplemental unaudited pro forma information has been prepared to give effect to the acquisition of CMG Asia, as if the transaction had been completed at the beginning of 2003. This information is calculated by combining the results of operations of the Company for 2005 and 2004 with that of CMG Asia prior to the acquisition date. The pro forma information is not intended to reflect what would have actually resulted had the transaction been completed at the beginning of 2004 or what may be obtained in the future. Where applicable the impact of synergy savings and integration costs arising from the acquisition have been reflected.

Supplemental unaudited pro forma condensed information:

	2005	2004
Revenue	$ 17,136	$ 16,809
Total common shareholders' net income before realized gains	$ 1,034	$ 709
Net realized gains	791	810
Common shareholders' net income	$ 1,825	$ 1,519
Weighted average number of shares outstanding (in millions)	587	599
Basic earnings per share	$ 3.11	$ 2.54
Shareholders' net income on a diluted basis	$ 1,820	$ 1,517
Weighted average number of shares outstanding on a diluted basis (in millions)	590	602
Diluted earnings per share	$ 3.08	$ 2.52

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

ix) Earnings per share:

Details of the calculation of the net income and the weighted average number of shares used in the earnings per share computations are as follows:

	2006		2005		2004	
	Cdn. GAAP	**U.S. GAAP**	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP
Common shareholders' net income excluding cumulative effect of accounting changes	**$ 2,089**	**$ 1,509**	$ 1,843	$ 1,814	$ 1,680	$ 1,665
Cumulative effect of accounting changes, net of income taxes		**4**		—		(179)
Common shareholders' net income	**$ 2,089**	**$ 1,513**	$ 1,843	$ 1,814	$ 1,680	$ 1,486
Less: Effect of stock options of subsidiaries	**11**	**11**	5	5	2	2
Common shareholders' net income on a diluted basis	**$ 2,078**	**$ 1,502**	$ 1,838	$ 1,809	$ 1,678	$ 1,484
Weighted average number of shares outstanding (in millions)	**577**	**577**	587	587	599	599
Add: Adjustments relating to the dilutive impact of stock options	**3**	**3**	3	3	3	3
Weighted average number of shares outstanding on a diluted basis (in millions)	**580**	**580**	590	590	602	602

x) 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:

	2006	2005	2004
Deposits and withdrawals reclassified to financing activities:			
Deposits to policyholders' accounts	**$ 6,417**	$ 6,401	$ 5,656
Withdrawals from policyholders' accounts	**$ 6,510**	$ 6,021	$ 5,986

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

xi) Guarantees: No material guarantees were identified that required recognition in these consolidated financial statements.

xii) Liabilities for contract guarantees: The Company offers various guarantees to certain policyholders including a return of no less than (a) total deposits made on the contract less any customer withdrawals, (b) total deposits made on the contract less any customer withdrawals plus a minimum return, or (c) the highest contract value on a specified anniversary date minus any customer withdrawals following the contract anniversary. These guarantees include benefits that are payable in the event of death, upon annuitization, or at specified dates during the accumulation period of an annuity.

For policies with a guaranteed minimum death benefit, the net amount at risk represents the excess of the value of the guaranteed minimum death benefit over the account value. This is a hypothetical amount that would only have been payable on December 31, 2006, had all of the policyholders died on that date. For policies with a guaranteed minimum income benefit, the net amount at risk represents the excess of the cost of an annuity to meet the minimum income guarantee over the account value. For the most part, these guarantees may not yet be exercised and there are limitations on when these guarantees may be exercised.

The table below represents information regarding the Company's variable annuity and unit-linked pension contracts with guarantees at December 31, 2006:

Benefit type	Account Balance	Net Amount at Risk	Weighted Average Attained Age of Contract Holders
Minimum death	**$ 36,371**	**$ 2,667**	**61**
Minimum income	**$ 3,001**	**$ 933**	**51**
Minimum accumulation or withdrawal	**$ 4,257**	**$ —**	**58**

The following summarizes the additional reserve for the minimum guaranteed death benefit and income benefit at December 31, 2006:

	Minimum Guaranteed Death Benefit	Guaranteed Minimum Income Benefit	Total
Balance at January 1, 2005	$ 37	$ 193	$ 230
Benefit ratio and assumption changes	19	—	19
Incurred guaranteed benefits	43	1	44
Paid guaranteed benefits	(43)	(22)	(65)
Interest	2	51	53
Effect of changes in currency exchange rates	10	(29)	(19)
Balance at December 31, 2005	**68**	**194**	**262**
Benefit ratio and assumption changes	**(7)**	**1**	**(6)**
Incurred guaranteed benefits	**69**	**1**	**70**
Paid guaranteed benefits	**(69)**	**(33)**	**(102)**
Interest	**4**	**(26)**	**(22)**
Effect of changes in currency exchange rates	**—**	**20**	**20**
Balance at December 31, 2006	**$ 65**	**$ 157**	**$ 222**

The liability for death and income benefit guarantees is established equal to a benefit ratio multiplied by the cumulative contract charges earned, plus accrued interest less contract benefit payments. The benefit ratio is calculated as the estimated present value of all expected contract benefits divided by the present value of all expected contract charges. The benefit ratio may be in excess of 100%. For guarantees in the event of death, benefits represent the current guaranteed minimum death payments in excess of the current account balance. For guarantees at annuitization, benefits represent the present value of the minimum guaranteed annuity benefits in excess of the current account balance.

Projected benefits and assessments used in determining the liability for guarantees are developed using models and stochastic scenarios that are also used in the development of estimated expected future gross profits. Underlying assumptions for the liability related to income benefits include assumed future annuitization elections based upon factors such as eligibility conditions and the

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

annuitant's attained age. The liability for guarantees will be re-evaluated periodically, and adjustments will be made to the liability balance through a charge or credit to policy owner benefits.

Guaranteed minimum accumulation benefits and withdrawal benefits are considered to be derivatives under SFAS 133, and are recognized at fair value through earnings. The guaranteed minimum accumulation and withdrawal benefits were liabilities of $190 and $165 as at January 1, 2006 and December 31, 2006, respectively.

D) U.S. GENERALLY ACCEPTED ACCOUNTING STANDARDS ADOPTED BY THE COMPANY IN 2006

i) FASB Statement No. 123R — Share-Based Payment (SFAS 123R): On December 16, 2004, the FASB issued SFAS 123R which replaces FASB Statement No.123 (SFAS 123), Accounting for Stock-Based Compensation, and eliminates the ability to account for share-based payment transactions using APB Opinion No.25, Accounting for Stock Issued to Employees. The Company adopted SFAS 123R effective January 1, 2006. SFAS 123R covers the accounting requirements for a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. SFAS 123R requires that compensation cost for employee stock-based compensation be measured based on the grant-date fair value and recognized in the financial statements over the vesting period (fair value method). Costs related to liability instruments are to be based on its current fair value and remeasured at each reporting date.

The Company had adopted the fair value method of SFAS 123 for stock-based payments in 2002. The fair value method under SFAS 123R is different from the fair value method in SFAS 123. Under SFAS 123, the Company had been accounting for compensation costs assuming all outstanding awards would vest, and recorded a reduction in compensation costs when awards were forfeited. SFAS 123R requires that entities estimate forfeitures in determining the compensation cost to record over the vesting period. SFAS 123 required that awards classified as liabilities be measured at their intrinsic value, while SFAS 123R requires that liability instruments be measured at their fair value.

The Company recorded an increase in income as a cumulative change in accounting principle as at January 1, 2006, of $4 (net of taxes of $2) as a result of the adoption of SFAS 123R. Basic and diluted earnings per share were both increased by $0.01 as a result of this change in accounting policy. Income was further increased by an immaterial amount in 2006 as a result of applying the changes to the fair value method required in SFAS 123R.

ii) FASB Statement No. 153 — Exchanges of Non-monetary Assets (SFAS 153): In December 2004, the FASB issued SFAS No. 153, an amendment of APB No. 29. This Statement amends Opinion 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. The Statement specifies that a non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This Statement was effective for the Company for non-monetary asset exchanges occurring in 2006 and did not have a material impact on the consolidated financial statements.

iii) FASB Statement No. 154 — Accounting Changes and Error Corrections (SFAS 154): The FASB issued SFAS 154**,** which applies to all voluntary accounting principle changes as well as the accounting for and reporting of such changes. SFAS 154 was effective for accounting changes and corrections of errors made in 2006. SFAS 154 requires that voluntary changes in accounting principles be retrospectively applied to financial statements from previous periods unless such application is impracticable, or if the accounting pronouncement to be adopted has specific transitional requirements different than those of SFAS 154.

iv) FASB Statement No. 158 — Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158): In September 2006, the FASB issued SFAS 158. This statement amends SFAS 87, Employers' Accounting for Pensions, and SFAS 106, Employers' Accounting for Post-Retirement Benefits Other than Pensions, to require recognition of the over funded or under funded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS 158, gains and losses, prior service costs and credits, and any remaining transition amounts under SFAS 87 and SFAS 106 that have not yet been recognized through net periodic benefit cost will be recognized in OCI, net of tax effects, until they are amortized as a component of net periodic cost. The requirement date, the date at which the benefit obligation and plan assets are measured is required to be the Company's fiscal year end. SFAS 158 is effective for the fiscal year ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. The Company adopted the balance sheet recognition provisions of SFAS 158 at December 31, 2006, and will adopt the requirements for the year-end measurement date in 2008. The adoption of SFAS 158 does not permit retroactive application. The adoption of SFAS 158 reduced the Company's 2006 total equity by $112 and the net periodic benefit cost to be recognized in 2007 will be $7. Since the measurement date change will be adopted in 2008 by the Company, the impact on its consolidated financial statements is not yet determinable.

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

The table below reflects the incremental effect of applying SFAS 158 on individual line items in the consolidated balance sheets as at December 31, 2006.

	Before Application of SFAS 158	Adjustment	After Application of SFAS 158
Intangible assets	$ 785	$ (14)	$ 771
Other assets	$ 7,871	$ (217)	$ 7,654
Other liabilities	$ 10,811	$ (65)	$ 10,746
Future income tax asset (liability)	$ (412)	$ 54	$ (358)
Equity	$ 18,623	$ (112)	$ 18,511

v) Securities Exchange Commission (SEC) Staff Accounting Bulletin No. 107 (SAB 107): The SAB is consistent with and does not alter any of the conclusions or requirements of SFAS 123R. SAB 107 provides practical guidance regarding certain matters important to selecting and applying models for determining fair value of awards under SFAS 123R. This SAB did not have a material impact on the consolidated financial statements in 2006.

vi) SEC Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements (SAB 108): In September 2006, the SEC issued SAB 108, which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in a misstatement that, when all relevant quantitative and qualitative factors are considered, is material and therefore must be quantified. SAB 108 was effective for the Company in 2006 and did not have any impact on the consolidated financial statements.

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

i) FASB Statement No. 155, Accounting for Certain Hybrid Financial Instruments (SFAS 155): In February 2006, the FASB issued SFAS 155, an amendment of SFAS 133, and FASB 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS 140). SFAS 155 provides the framework for fair value remeasurement of any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, and establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives. SFAS 155 further amends SFAS 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The guidance of SFAS 155 also clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS 133 and that concentrations of credit risk in the form of subordination are not embedded derivatives. This statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company will apply the requirements of this standard in 2007 but does not expect this statement to have a material impact on its consolidated financial statements.

ii) FASB Statement No. 156, Accounting for Servicing of Financial Assets (SFAS 156): In March 2006, the FASB issued SFAS 156, an amendment of SFAS 140. SFAS 156 permits, but does not require, an entity to choose either the amortization method or the fair value measurement method for measuring each class of separately recognized servicing assets and servicing liabilities. SFAS 156 is effective for fiscal years beginning after September 15, 2006. The Company will apply the requirements of this standard in 2007 but does not expect this statement to have a material impact on its consolidated financial statements.

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

iii) FASB Statement No. 157, Fair Value Measurements (SFAS 157): In September 2006, the FASB issued SFAS 157. SFAS 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, with early adoption permitted. The Company has not yet determined the impact, if any; the implementation of SFAS 157 may have on its consolidated financial statements.

iv) FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109 (FIN 48): In July 2006, the FASB issued FIN 48. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The FASB standard also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, with earlier adoption permitted. The Company is currently assessing the impact of adopting this FIN on its consolidated financial statements.

v) American Institute of Certified Public Accountants' (AICPA) Statement of Position 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts (SOP 05-1): In September 2005, the AICPA issued SOP 05-1. SOP 05-1 provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in FAS 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments. SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. SOP 05-1 is effective for internal replacements occurring in fiscal years beginning after December 15, 2006, with earlier adoption encouraged. The Company does not expect the adoption of this new SOP to have a material impact on its consolidated financial statements.

25.Comparative Figures

Certain comparative figures have been reclassified to conform with the presentation adopted in 2006.

Appointed Actuary's Report

THE SHAREHOLDERS AND DIRECTORS OF SUN LIFE FINANCIAL INC.

I have valued the policy liabilities of Sun Life Financial Inc. and its subsidiaries for its consolidated balance sheets at December 31, 2006 and 2005 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 8, 2007

Report of Independent Registered Chartered Accountants

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF SUN LIFE FINANCIAL INC.

We have audited the accompanying consolidated balance sheets of Sun Life Financial Inc. and subsidiaries (the "Company") and the separate consolidated statements of segregated funds net assets as of December 31, 2006 and 2005, and the related consolidated statements of operations, equity, cash flows and changes in segregated funds net assets for each of the three years in the period ended December 31, 2006. 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.

With respect to the financial statements for the year ended December 31, 2006, we conducted our audit in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). With respect to the financial statements for the years ended December 31, 2005 and 2004, we conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Sun Life Financial Inc. and subsidiaries and their segregated funds as of December 31, 2006 and 2005, and the results of their operations, their cash flows and the changes in their segregated funds net assets for each of the three years in the period ended December 31, 2006 in conformity with Canadian generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 8, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.



Deloitte & Touche LLP
Independent Registered Chartered Accountants

Toronto, Canada
February 8, 2007

Report of Independent Registered Chartered Accountants

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF SUN LIFE FINANCIAL INC.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Sun Life Financial Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing, and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2006 of the Company and our report dated February 8, 2007 expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP
Independent Registered Chartered Accountants

Toronto, Canada
February 8, 2007

Exhibit 2

Management's Discussion and Analysis

Sun Life Financial Inc.

For the Year Ended December 31, 2006

February 8, 2007

Sun Life Financial

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In this Management's Discussion and Analysis (MD&A), Sun Life Financial Inc. (SLF Inc.) and its consolidated subsidiaries, significant equity investments and joint ventures are collectively referred to as "Sun Life Financial" or the "Company". Unless otherwise indicated, all information in this MD&A is presented as at and for the year ended December 31, 2006, and amounts are expressed in Canadian dollars. Where information at and for the year ended December 31, 2006 is not available, information available for the latest period before December 31, 2006 is used. Financial information, except where otherwise noted, is presented in accordance with Canadian generally accepted accounting principles (GAAP), and the accounting requirements of the Office of the Superintendent of Financial Institutions, Canada (OSFI). Additional information relating to the Company can be found in SLF Inc.'s Consolidated Financial Statements and accompanying notes (Consolidated Financial Statements) and Annual Information Form (AIF) for the year ended December 31, 2006, and other documents filed with applicable securities regulators in Canada, which may be accessed at www.sedar.com, and with the United States Securities and Exchange Commission (SEC), which may be accessed at www.sec.gov.

Use of non-GAAP financial measures

Management evaluates the Company's performance on the basis of financial measures prepared in accordance with GAAP, including earnings, earnings per share (EPS) and return on equity (ROE). The Company's performance is also evaluated using certain non-GAAP measures, including operating earnings, and financial measures based on operating earnings, including operating EPS and operating ROE, that exclude certain significant items that are not operational or ongoing in nature. Management also uses financial performance measures that are prepared on a constant currency basis, which excludes the impact of currency fluctuations. The performance of business segments is evaluated using ROE that is based on an allocation of common equity or risk capital to the business segments, based on assumptions, judgments and methodologies that are regularly reviewed and revised by management. Management also monitors MFS's pre-tax operating profit margin ratio, which excludes certain fee income, as a means of measuring the underlying profitability of that business. Management believes that these non-GAAP financial measures provide information useful to investors in understanding the Company's performance and facilitate the comparison of the quarterly and full year results of the Company's ongoing operations. These non-GAAP financial measures do not have any standardized meaning and may not be comparable with similar measures used by other companies. They should not be viewed as an alternative to measures of financial performance determined in accordance with GAAP. Additional information concerning these non-GAAP financial measures and reconciliations to GAAP measures are included in this MD&A under the heading "Non-GAAP financial measures" on page 15 and in the Supplementary Financial Information packages that are available in the Investor Relations – Financial Publications section of Sun Life Financial's website, www.sunlife.com.

Forward-looking statements

Certain statements contained or incorporated by reference in this MD&A, including those relating to the Company's strategies and other statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or similar expressions, are forward-looking statements within the meaning of securities laws. Forward-looking statements include the information concerning possible or assumed future results of operations of Sun Life Financial set out under Enterprise mission, vision, value and strategy, Financial performance and objectives, Business overview, Performance overview, SLF Canada, SLF U.S., MFS, SLF Asia, Corporate, Investments and Financial position and liquidity. These statements represent the Company's expectations, estimates and projections regarding future events and are not historical facts. The forward-looking statements contained or incorporated by reference in this MD&A are stated as of the date hereof, are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. Future results and stockholder value may differ materially from those expressed in the forward-looking statements contained or incorporated by reference in this MD&A due to, among other factors, the matters set out under Critical accounting estimates on page 32 and Risk management on page 38 of this MD&A and Risk factors contained in SLF Inc.'s AIF and the factors detailed in its other filings with Canadian and U.S. securities regulators, including its annual and interim financial statements and the notes thereto, which are available for review at www.sedar.com and www.sec.gov.

Factors that could cause actual results to differ materially from expectations include, but are not limited to, the performance of equity markets; interest rate fluctuations; changes in legislation and regulations including tax laws; regulatory investigations and proceedings and private legal proceedings and class actions relating to practices in the mutual fund, insurance, annuity and financial product distribution industries; risks relating to product design and pricing; investment losses and defaults; the occurrence of natural or man-made disasters, including pandemic diseases and acts of terrorism; risks relating to operations in Asia, including risks relating to joint ventures; failure of computer systems and internet enabled technology; breaches of computer security and privacy; availability, cost and effectiveness of reinsurance; the inability to maintain strong distribution channels and risks relating to market conduct by intermediaries and agents; dependence on third-party relationships including outsourcing arrangements; currency exchange rate fluctuations; the impact of competition; downgrades in financial strength or credit ratings; the ability to successfully complete and integrate acquisitions; the ability to attract and retain employees; and the performance of the Company's investments and investment portfolios managed for clients such as segregated and mutual funds. The Company does not undertake any obligation to update or revise these forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events, except as required by law.

Financial highlights

(in millions of dollars, except earnings and dividends per share, ROE and dividend payout ratio)	**2006**	2005(1)	2004(1)
Common shareholders' net income			
Operating(2)	**2,091**	1,906	1,739
Reported	**2,089**	1,843	1,680
Basic earnings per share (EPS)			
Operating(2)	**3.62**	3.24	2.91
Reported	**3.62**	3.14	2.81
Return on common shareholders' equity (ROE)			
Operating(2)	**13.8%**	13.1%	12.0%
Reported	**13.8%**	12.6%	11.6%
Dividends per common share	**1.15**	0.99	0.86
Dividend payout ratio(2)(3)	**32%**	31%	30%
Dividend yield	**2.5%**	2.3%	2.3%
Total revenue	**24,287**	21,918	21,730
Premiums, deposits and fund sales			
Premium revenue, including ASO premium equivalents	**17,327**	15,329	15,100
Segregated fund deposits	**8,753**	7,205	7,145
Mutual fund sales	**20,412**	20,329	19,884
Managed fund sales	**26,116**	31,135	23,981
Total premiums, deposits and fund sales	**72,608**	73,998	66,110
Assets under management (AUM) *(at December 31)*			
General fund assets	**117,831**	110,866	107,803
Segregated fund net assets	**70,789**	60,984	56,564
Other AUM	**247,865**	215,539	195,283
Total AUM	**436,485**	387,389	359,650
Capital *(at December 31)*			
Subordinated debt	**1,456**	1,456	1,462
Liabilities for Cumulative Capital Securities and Sun Life	**1,849**	1,849	1,870
ExchangEable Capital Securities(4) Preferred shares	**1,250**	712	152
Participating policyholders' equity	**92**	85	77
Total common shareholders' equity	**15,842**	14,749	14,338
Total capital	**20,489**	18,851	17,899

(1) Certain comparative figures have been reclassified to conform with the presentation adopted in 2006.

(2) Operating earnings, operating EPS, operating ROE and dividend payout ratio are non-GAAP measures and exclude certain items described on page 15 under the heading Non-GAAP financial measures.

(3) The dividend payout ratio represents the ratio of common shareholders' dividends to operating earnings.

(4) These securities qualify as capital for Canadian regulatory purposes. Starting January 1, 2005, Cumulative Capital Securities Securities (CCS) and Sun Life ExchangEable Capital Securities (SLEECS) were deconsolidated and reclassified as debentures in other liabilities in SLF Inc.'s Consolidated Financial Statements. Additional information is available on page 45 under the heading Capital.

Financial performance

In 2006, Sun Life Financial achieved record earnings, increased ROE and significantly expanded distribution capability. The Company exceeded its growth objectives for operating EPS, surpassing its 10% constant currency growth target with an increase of over 15%. The Company also surpassed its operating ROE growth objective in 2006. On a constant currency basis operating ROE increased by 110 basis points (bps) to 14.2%, well above the growth target of 75 to 100 bps. Operating earnings grew to $2,091 million, an increase of 10% from 2005 and reported earnings rose to $2,089 million, 13% higher than 2005.

The Company's focus on delivering excellence in customer service, providing a diverse array of competitive product offerings and increasing its presence in multiple distribution channels contributed to revenue growth. Total revenue for 2006 of $24.3 billion was $2.4 billion higher than 2005. A $3.4 billion revenue increase, in constant currency, mainly from both higher premiums and net investment income was partly offset by a $1.0 billion reduction from the strengthened Canadian dollar against foreign currencies compared to 2005. Fee income of $3.0 billion was up $115 million from the 2005 full year amount, with additional fees earned on higher AUM partly diminished by the unfavourable currency impact from a stronger Canadian dollar.

Total premiums, deposits and fund sales decreased by $1.4 billion to $72.6 billion for the year ended December 31, 2006. The rise in premiums and segregated fund deposits was more than offset by lower managed fund sales.

The financial strength ratings of Sun Life Financial's primary insurance subsidiaries are shown in the following table:

Financial strength ratings *(as at December 31, 2006)*	A.M. Best	Moody's	Standard & Poor's
Sun Life Assurance Company of Canada	A++	Aa2	AA+
Sun Life Assurance Company of Canada (U.S.)	A++	Aa2	AA+

Enterprise mission, vision, values and strategy

Mission

To help customers achieve lifetime financial security

Vision

To be an international leader in protection and wealth management

Values

These values guide us in achieving our strategy:

Values	**Integrity** We are committed to the highest standards of business ethics and good governance.	**Engagement** We value our diverse, talented workforce and encourage, support and reward them in contributing to the full extent of their potential.
Customer Focus We provide sound financial solutions for our customers and always work with their interests in mind.	**Excellence** We pursue operational excellence through our dedicated people, our quality products and services, and our value-based risk management.	**Value** We deliver value to the customers and shareholders we serve and to the communities in which we operate.

Strategy

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

We will work to achieve our strategy through focused execution of the following six enterprise priorities in 2007:

Generate value-building growth Sustain profitable top-line growth and deliver on key medium-term financial targets.	**Intensify customer focus** Meet the needs of our customers by delivering top quality products and services.	**Enhance productivity and efficiency** Continuously improve productivity and efficiency to increase competitiveness.
Strengthen risk management Enhance risk management processes and practices to maximize shareholder value.	**Foster innovation** Embed creativity and innovation throughout the organization to improve business results and gain competitive advantage.	**Leverage international resources** Capitalize on our knowledge and international reach, disseminating expertise and resources across all of our operations.

Financial performance and objectives

Measure	2006 goals	2006 results	2006 achievements vs. goals
Operating EPS (1) growth Growth in EPS reflects the Company's focus on generating sustainable earnings for shareholders on a constant currency basis.	10%	15%	Exceeded target
Operating ROE(1) growth Growth in ROE is a significant driver of shareholder value and is a major focus for management across all businesses on a constant currency basis.	75 — 100 basis points	110 basis points	Exceeded target
Dividend payout ratio (1) (2) The payment of common share dividends is an indicator of management's confidence in the Company's long-term ability to generate capital as well as its significant capital strength and flexibility.	30% — 40%	32%	Met target

Sun Life Financial's medium-term goals are based on the following assumptions and conditions:

- A rise in the average level of key equity market indices, primarily the S&P 500, by approximately 7% - 8%
- Stability in North American interest rates across the yield curve
- Continuation of the current credit environment
- Stability in exchange rates between the Canadian dollar and foreign currencies, primarily the U.S. dollar and the British pound sterling

For 2007, medium-term goals have been established for a 3-5 year time period. The medium-term operating EPS growth objective is 10% per annum and the medium-term operating ROE goal is 15%.

(1) Operating EPS, operating ROE and the dividend payout ratio are non-GAAP measures. For additional information see the section under the heading Non-GAAP financial measures on page 15.

(2) The dividend payout ratio represents the ratio of common shareholders' dividends to operating earnings.

Business overview

Sun Life Financial is a leading international financial services organization, offering a diverse range of life and health insurance, savings, investment management, retirement, and pension products and services to both individual and corporate customers.

The Company's business model is one of balance. It strives to establish scale and scope in each of the diversified markets in which it chooses to compete. It weighs the higher growth prospects in emerging markets against the relative stability of more mature operations. In a similar way, the Company's protection business serves as a counterbalance to the wealth management business, ensuring that customers have access to complementary insurance, retirement and savings products that meet their specific needs. The following table shows the Company's products by business segment.

Products	SLF Canada	SLF U.S.	MFS	SLF Asia	Corporate
Individual life insurance	o	o		o	o
Individual annuity and savings	o	o	o	o	o
Group life and health	o	o		o	
Group pension and retirement	o	o		o	
Mutual funds	o		o	o	
Asset management	o	o	o	o	
Individual health insurance	o			o	
Reinsurance (life retrocession)					o

A hallmark of the Company's operations is its strong focus on multi-channel distribution. By offering more than one touch point, customers have the option of choosing how – and when – they can purchase products and access services.

Distribution channels	SLF Canada	SLF U.S.	MFS	SLF Asia
Direct sales agents	o			o
Independent and managing general agents	o	o		o
Financial intermediaries (e.g., brokers)	o	o	o	o
Banks		o		o
Pension and benefit consultants	o	o	o	
Direct sales (including Internet)	o		o	o

Drivers of profitability

Several factors could affect the profitability of the Company's operations, including changes in:

- Equity market performance
- Interest rates
- Credit experience
- Mortality and morbidity experience
- Surrender and lapse experience
- Spreads between the interest credited to policyholders and investment returns
- Currency exchange rates, regulatory environment and other external factors.

The Company's risk factors are described in SLF Inc.'s 2006 AIF under the heading Risk factors and the Company's enterprise-wide risk management framework is described on page 38 of this MD&A under the heading Risk Management.

Performance overview

Sun Life Financial manages its operations and reports its financial results in five business segments: Sun Life Financial Canada (SLF Canada), Sun Life Financial United States (SLF U.S.), MFS Investment Management (MFS), Sun Life Financial Asia (SLF Asia), and Corporate. The Corporate segment includes the operations of Sun Life Financial's United Kingdom business unit (SLF U.K.), the Company's active reinsurance business, and Corporate Support operations, which include run-off reinsurance and revenue and expenses of a corporate nature not attributable to other segments.

Financial information on the Company's segments is presented in both Canadian dollars and the segments' local currency where appropriate.

2006 performance

The Company reported record common shareholders' operating net income (1) for the year of $2,091 million, up 10% compared to $1,906 million in 2005. Each business group made significant progress in achieving its goals largely through organic business growth. The strengthening of the Canadian dollar against foreign currencies during 2006 reduced common shareholders' operating net income by $71 million, based on 2005 exchange rates. Reported common shareholders' net income for the year was $2,089 million, an increase of $246 million, or 13%, from $1,843 million in 2005.

SLF Canada delivered solid results in 2006, making progress in its key areas of focus of continuing to strengthen distribution capabilities, top-line growth and operational effectiveness. The Individual Insurance & Investments business continued to develop its multi distribution capabilities with improved productivity from the Clarica Sales Force in both insurance and wealth sales and a focus on increasing wholesale sales, which grew by 70% over 2005. SLF Canada leveraged its Total Benefits offering, which integrates the products and services of Group Benefits and Group Retirement Services (GRS) into a seamless service, resulting in a 4.3% increase in total joint clients between December 31, 2005 and October 31, 2006. Group Benefits performed strongly in 2006 with net sales for the full year 2006 up by over 30% over 2005, supported by continued industry leading client retention rates of over 97%. GRS had an outstanding sales year with gross sales over $2.0 billion and rollover sales, a key strategic focus, exceeding $500 million in 2006 with $2.2 billion of rollover assets under management at December 31, 2006.

SLF U.S. progressed steadily towards its goals of strengthening its distribution network, achieving top-line growth, improving efficiency and delivering excellence. Variable annuity sales gained important traction in 2006 as total gross sales in U.S. dollars rose by 22%, with a healthy 30% increase in gross domestic sales over 2005. Net variable annuity redemptions continued in 2006 with slightly higher levels of withdrawals of US$3.1 billion compared to US$2.9 billion in 2005. The Individual Life business unit maintained total new premium and deposits growth momentum with strong increases of US$354 million and US$473 million in both core universal life and bank-owned life insurance products, respectively, compared to 2005, including the new BOLI Pooled Stable Value product. SLF U.S. also continued to leverage its multi-site service strategy to improve service capability and reduce costs.

On January 10, 2007, SLF Inc. entered into an agreement to purchase the U.S. group benefits business of Genworth Financial, Inc. (Genworth) for US$650 million. The acquisition will add significant scale and scope to Sun Life Financial's U.S. group business. Genworth's group operations, which primarily offer group life, disability, stop-loss and dental insurance, will strengthen and complement Sun Life Financial's existing product offerings in the U.S. The acquisition significantly enhances Sun Life Financial's market share across its U.S. group lines of business and will position the Company as the second largest U.S. medical stop-loss provider. In addition, Genworth's extensive distribution network and focus on the small-case employer market will help accelerate Sun Life Financial's group insurance growth strategy in the U.S. The transaction will be financed with existing capital. It is expected to close in the second quarter of 2007 and is subject to the approval of regulatory authorities in Canada and the United States. On January 29, 2007 SLF Inc. assigned to Sun Life Assurance, for US$609 million, the rights to purchase Genworth Life and Health Insurance Company, the principal operating subsidiary of Genworth's U.S. group benefits business.

In 2006, MFS focussed on improving long-term investment performance. MFS had growth in product breadth, diversification in gross sales by investment style and competitiveness in the global institutional marketplace as well as stronger investment performance. The progress made on realignment of the distribution strategy reflects the emphasis in the retail distribution channel on a more focussed product lineup and the increase in institutional distribution in both the U.S. and internationally. During 2006, consistently positive institutional net flows offset the net outflows of the U.S. retail funds.

(1) Operating earnings, operating EPS and operating ROE are non-GAAP measures and exclude the items described in this MD&A under the heading Non-GAAP financial measures on page 15.

Operating margins before tax also improved by 730 basis points in 2006 over 2005, benefiting from cost containment and efficiency programs.

SLF Asia executed on several key strategic initiatives to position itself as a long-term growth engine for Sun Life Financial. In 2006, SLF Asia completed several key elements of the integration of CMG Asia Limited (CMG Asia), notably those related to distribution and product portfolio. Sun Life Financial's Hong Kong earnings rose to $88 million in 2006, an increase of $75 million over 2005 and Hong Kong individual life insurance sales in local currency were up 32%. Birla Sun Life Insurance Company Limited (Birla Sun Life), the Company's India life insurance joint venture, rapidly widened its branch network by opening 61 branches. It also significantly exceeded its year-end target of 20,000 advisors as the direct sales force in India grew to over 34,000 advisors, serving 95 cities and increasing its agency sales in local currency by 53%. Sun Life Everbright Life Insurance Company Limited (Sun Life Everbright), the Company's joint venture in China, expanded operations in 2006 by opening sales offices in seven cities in the Zhejiang province and one branch office in Nanjing. Sun Life Everbright's individual life insurance sales, in local currency, grew by 108% over 2005.

Outlook

The global economic and business environment is expected to remain generally favourable. The Canadian economy is expected to remain strong, primarily driven by the continuing demand for natural resources and corresponding labour requirements. The United States economy is expected to moderate with the slowing of the housing market and corporate profits. Interest rates and currency levels, though, are projected to remain stable. The Asia environment will continue to have periods of interest rate and currency volatility as well as increasing competition for qualified human resources as expansion continues. These economic conditions are expected to provide opportunities for Sun Life Financial and other organizations as individuals and institutions look to financially strong organizations for protection, savings and investments.

The investment management policies and interpretation of Sun Life Financial's results in 2007 will also be affected by the implementation of new Canadian accounting standards for reporting financial instruments in financial statements. The most notable impact of the new standards is the need to recognize and measure all financial instruments at fair value.

Consolidated results of operations

Common shareholders' net income

Excellent results were reported for the year ended December 31, 2006, as the Company's diversified businesses focused on organic business growth through the continued expansion of distribution channels and product enhancements. The Company's acquisition of CMG Asia in the fourth quarter of 2005 was also accretive to earnings during 2006.

Earnings and earnings per share

($ millions, except earnings and dividends per share	**2006**	2005(1)	2004(1)
Total net income	**2,144**	1,876	1,693
Less:			
Participating policyholders' net income	**7**	9	13
Dividends paid to preferred shareholders	**48**	24	—
Common shareholders' net income	**2,089**	1,843	1,680
Plus: Special items(2)	**2**	63	59
Operating earnings	**2,091**	1,906	1,739
Basic EPS from:			
Common shareholders' net income	**3.62**	3.14	2.81
Operating earnings(2)	**3.62**	3.24	2.91
Diluted EPS from:			
Common shareholders' net income	**3.58**	3.12	2.79
Operating earnings(2)	**3.58**	3.23	2.88
Common shareholders' net income by segment			
SLF Canada	**995**	963	895
SLF U.S.	**448**	495	391
MFS	**234**	179	114
SLF Asia	**101**	42	45
Corporate	**311**	164	235
Total	**2,089**	1,843	1,680

(1) Certain comparative figures have been reclassified to conform with the presentation adopted in 2006.

(2) The impact of special items on earnings per share are described on page 15 under the heading Non-GAAP financial measures.

Common shareholders' net income of $2,089 million in 2006 represented an increase of $246 million over $1,843 million for the year ended December 31, 2005. The appreciation of the Canadian dollar against foreign currencies in the year reduced common shareholders' net income by $71 million, compared to 2005.

Operating earnings, which excluded certain items outlined on page15, exceeded the $2.0 billion mark, an increase of $185 million, or 10%, from $1.9 billion in 2005. All business groups except SLF U.S. achieved higher earnings in 2006 than 2005. Excluding the impact of currency exchange rate changes, operating earnings would have been $2,162 million, up 13% from 2005.

Basic EPS increased to $3.62 in 2006 from $3.14 in 2005. The strengthening of the Canadian dollar during the year reduced earnings in 2006 by $71 million or $0.12 per common share.

Basic operating EPS were $3.62, up 12% from $3.24 in 2005. Without the currency effect of a stronger Canadian dollar relative to other currencies, the basic operating EPS would have been $3.74.

SLF Canada's 2006 earnings of $995 million increased $32 million over 2005 due to higher Group Wealth and CI Financial Income Fund (C.I. Financial) earnings, partially offset by a return to more normal annuity mortality experience in Individual Insurance & Investments.

SLF U.S. 2006 earnings of $448 million, reflecting 21% of the Company's total common shareholders' net income, were down $47 million, or 9%, from 2005. SLF U.S. earnings in 2006 were $479 million excluding the $31 million unfavourable currency impact due to the stronger Canadian dollar against the U.S. currency. The decrease mainly related to Individual Life's new business strain of $70 million, partly offset by higher annuities earnings on improved interest spread and the positive impact of equity market movements.

MFS contributed $234 million to the Company's common shareholders' net income in 2006, an increase of $55 million from 2005. Excluding the negative currency effect of $16 million from the strengthening of the Canadian dollar relative to the U.S. dollar, earnings grew to $250 million in 2006. Growth in advisory revenue, cost containment and the transfer of MFS Retirement Services, Inc. (RSI) to SLF U.S. in early 2006 benefited earnings growth. In February 2007, the name of MFS Retirement Services, Inc. was changed to Sun Life Retirement Services (U.S.), Inc.

SLF Asia reported common shareholders' earnings of $101 million in 2006, $59 million higher than 2005 primarily due to the acquisition of CMG Asia in Hong Kong.

Corporate had common shareholders' net income of $311 million for the full year, $147 million higher than in 2005. Improved results in Reinsurance from better mortality and the absence of reserve strengthening, which occurred in 2005, as well as the impact of favourable settlements in run-off reinsurance contributed to the increase. The absence of the $51 million after-tax charge to earnings in 2005 from the sale of Administradora de Fondos de Pensiones Cuprum, S.A. (Cuprum) and a $9 million after-tax charge to earnings in 2005 related to integration costs associated with the acquisition of CMG Asia also contributed to the change.

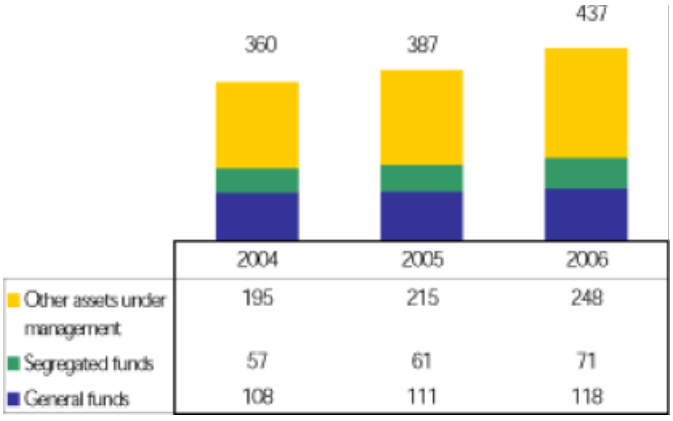
Return on equity

ROE based on common shareholders' net income was 13.8% in 2006, compared to 12.6% in 2005, while the operating ROE of 13.8% in 2006 increased by 70 basis points from 13.1% in 2005. Higher earnings and the impact of SLF Inc.'s share buyback program drove the rise in ROE. The ROE increase also reflected higher dividend payments. Excluding the impact of the change in the Canadian dollar against foreign currencies, ROE based on both operating and reported earnings was 14.2% in 2006.

Assets under management

The Company's AUM are made up of general funds, segregated funds and other AUM, including mutual and managed funds consisting of institutional and other third-party assets managed by the Company. AUM reported by the Company exclude the assets managed by CI Financial, in which the Company has a 36.5% equity interest. CI Financial's AUM were $81.6 billion at December 31, 2006, an increase of $9.9 billion from 2005.

Assets under management
($ billions)



	2004	2005	2006
Other assets under management	195	215	248
Segregated funds	57	61	71
General funds	108	111	118

Total AUM were $436.5 billion as at December 31, 2006, an increase of $49.1 billion compared to $387.4 billion as at December 31, 2005. Net sales of mutual, managed and segregated funds of $1.8 billion, an additional $38.9 billion from improved equity market performance, continuing business growth of $5.7 billion and the $2.7 billion positive impact of the weakening of the Canadian dollar against foreign currencies produced the AUM growth.

The Company's general fund assets increased to $117.8 billion, up $6.9 billion, or 6%, from the December 31, 2005 level. Combined business growth of $5.7 billion in SLF Canada and SLF U.S., primarily in SLF U.S. investment and individual life products, and $1.3 billion from the positive impact of currency rate changes resulted in the general fund assets growth.

Segregated fund assets increased to $70.8 billion as at December 31, 2006 compared to $61.0 billion as at December 31, 2005. Net inflows of $1.7 billion, an increase in asset values of $7.1 billion due to market improvements and a favourable currency impact of $1.0 billion caused segregated fund assets to be above the 2005 level. Other AUM increased to $247.9 billion, $32.3 billion higher than as at December 31, 2005 mainly from market growth of $31.8 billion.

Revenue

The Company's total revenue for the year ended December 31, 2006 increased to $24.3 billion, up $2.4 billion from 2005. Premiums rose by $1.7 billion in 2006 with all three premium categories: annuities, life insurance and health insurance higher than the previous year. Net investment income contributed $585 million to the overall boost in revenue, reflecting favourable capital markets. Fee income was up $115 million from 2005. Total revenue growth was suppressed by $1.0 billion as a result of the Canadian dollar appreciation against foreign currencies.

Annuity premiums of $5.4 billion gained $824 million over last year from the sale of US$1.8 billion of funding agreement backed medium-term notes (MTNs) in 2006 compared to the 2005 MTN issuance of US$900 million. The increase was partly offset by lower fixed index annuity premiums in the U.S. of $0.3 billion and a decrease of $0.3 billion arising from a stronger Canadian dollar.

Life insurance premiums improved by $485 million as SLF U.S.'s individual life insurance premiums grew by $438 million mainly on higher core universal sales. SLF Asia generated an additional $131 million of premium revenue, mainly from the acquisition of CMG Asia. The stronger Canadian dollar weakened these increases by $242 million.

Total Revenue

($ millions)	**2006**	2005(1)	2004(1)
Premiums			
Annuities	**5,380**	4,556	4,588
Life insurance	**6,168**	5,683	5,948
Health insurance	**3,061**	2,701	2,367
Total premiums	**14,609**	12,940	12,903
Net investment income	**6,664**	6,079	5,924
Fee income	**3,014**	2,899	2,903
Total	**24,287**	21,918	21,730

(1) Certain comparative figures have been reclassified to conform with the presentation adopted in 2006.

Health insurance premiums rose 13% to $3.1 billion in 2006 mainly-on strong business growth in SLF Canada's Group Benefits and less premiums ceded to reinsurers. The increase was weakened by an unfavourable impact of $51 million arising from the strengthening of the Canadian dollar against foreign currencies.

Investment income was $6.7 billion in 2006, up from $6.1 billion in 2005, primarily due to increased earnings on a higher asset base, and the absence of the $43 million loss on the sale of Cuprum recorded in investment income in 2005. These increases were partially reduced by $234 million from the unfavourable impact of currency fluctuations during the year.

Fee income of $3.0 billion in 2006 improved by $115 million from 2005. The unfavourable impact of $170 million from an appreciated Canadian dollar relative to other currencies offset the higher fee income from growth in fee-based assets primarily in SLF U.S. and MFS.

Benefit payments

The Company has a variety of current and future benefit payment obligations that affect overall earnings. Payments to policyholders, beneficiaries and depositors in 2006 were $12.9 billion, up $93 million from 2005. Higher levels of health benefits of $368 million were partly offset by lower maturities and surrenders of $215 million than in 2005. Transfers to segregated funds grew by 19% on sustained demand for market-based products. The increase in actuarial liabilities in 2006 was $1.7 billion higher than 2005, partly attributable to the impact from the sales of US$1.8 billion for the 2006 MTN program for SLF U.S. The $306 million added to the increase in actuarial liabilities arising from higher premiums in U.S. individual insurance was more than offset by the decrease of $652 million due to the net outflows of U.S. fixed annuities. The $128 million impact of a stronger Canadian dollar also moderated the growth in the liability change.

Benefit Payments

($ millions)	**2006**	2005(1)	2004(1)
Payments to policyholders, beneficiaries and depositors	**12,895**	12,802	12,532
Net transfers to segregated funds	**835**	704	582
Increase in actuarial liabilities	**2,525**	872	1,425
Total	**16,255**	14,378	14,539

(1) Certain comparative figures have been reclassified to conform with the presentation adopted in 2006.

Expenses and other

Commission expenses increased by $190 million in 2006, or 11%, from the 2005 amount of $1.7 billion. An additional $203 million in SLF U.S.'s individual life commissions in 2006 was incurred, mainly relating to its higher universal life sales. The strengthening of the Canadian dollar against the U.S. currency reduced commissions by $102 million.

Operating expenses of $3.0 billion in 2006 were $104 million higher than 2005. Higher operating expenses in SLF Canada of $77 million, included $24 million of expenses that were no longer ceded to reinsurers in 2006. The remainder of the increase primarily related to business growth in Individual Wholesale, Group Benefits and GRS. Business growth in SLF U.S. accounted for $77 million more in expenses. Additional expenses of $58 million in SLF Asia occurred mostly from the CMG Asia acquisition. These increases were diminished by lower corporate systems costs of $29 million compared to 2005 and a $122 million reduction from the impact of currency fluctuations.

Interest expenses rose by $50 million from $273 million in 2005 with the additional issuances of senior unsecured fixed/floating debentures during 2006.

Income taxes of $389 million in 2006 dropped by $142 million from 2005 levels, including a decrease of $41 million from the reduction in the Canadian federal and certain provincial tax rates legislated in the second quarter of 2006. There was also a decrease in income taxes of $63 million due to higher levels of tax exempt investment income and a reduction of $91 million in income taxes due to increased levels of income from jurisdictions with lower tax rates as compared to 2005. These reductions were partially offset by increased taxes from higher overall earnings.

In the second quarter of 2006, the Canadian federal government and certain provinces reduced corporate income tax rates for years after 2007. The statutory income tax rate will decline gradually to 32% in 2010 as these rate reductions become effective. This reduction requires the Company to review its Canadian future tax liability on an ongoing basis. The re-measure, in 2006, impacted both the business attributable to participating policyholders and shareholders; while the participating policyholders benefited by $36 million, the increase to the shareholders' income was limited to $5 million.

Expenses and Other

($ millions)	**2006**	2005(1)	2004(1)
Commissions	**1,916**	1,726	1,916
Operating expenses	**3,003**	2,899	2,747
Regulatory settlement provisions related to MFS	**—**	—	62
Intangibles amortization	**25**	22	22
Premium taxes	**205**	190	182
Interest expenses	**323**	273	278
Income taxes	**389**	531	263
Non-controlling interests in net income of subsidiaries	**27**	23	28
Participating policyholders' net income (loss)	**7**	9	13
Dividends to preferred shareholders	**48**	24	—
Total	**5,943**	5,697	5,511

(1) Certain comparatives figures have been reclassified to conform with the presentation adopted in 2006.

Quarterly information

Key quarterly financial information for the two most recent fiscal years is summarized in the table below:

Quarterly Information

($ millions, unless otherwise noted)	**2006**				2005(2)			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Common shareholders' net income								
Operating(1)	**545**	**541**	**512**	**493**	490	481	477	458
Reported	**545**	**541**	**512**	**491**	478	430	477	458
Basic EPS (in dollars)								
Operating(1)	**0.95**	**0.94**	**0.88**	**0.85**	0.84	0.82	0.81	0.77
Reported	**0.95**	**0.94**	**0.88**	**0.84**	0.82	0.74	0.81	0.77
Total revenue	**6,137**	**6,604**	**6,231**	**5,315**	5,338	5,504	5,988	5,088
Total AUM	**436,485**	**401,167**	**387,205**	**402,376**	387,389	373,754	377,096	365,831

(1) Operating earnings and operating EPS are non-GAAP measures and exclude the items described under the heading Non-GAAP financial measures on page15.

(2) Certain comparative figures have been restated to conform with the presentation adopted in 2006.

Non-GAAP financial measures

Management evaluates the Company's performance on the basis of financial measures prepared in accordance with GAAP, including earnings, EPS and ROE. Management also measures the Company's performance based on certain non-GAAP measures, including operating net income, operating earnings and financial measures based on operating earnings, such as operating EPS, operating ROE and the dividend payout ratio. These non-GAAP financial measures exclude certain items that are not operational or ongoing in nature. Management also uses financial performance measures that are prepared on a constant currency basis. Constant currency amounts are calculated using the applicable currency rates of the previous period but excluding the 2005 adjustment to the currency translation account on the repatriation of capital from the U.K. as described in Note 22 of the SLF Inc. 2006 Consolidated Financial Statements. Management calculates the ROE of its business segments using an allocation of common equity or risk capital to the business segments, based on assumptions, judgments and methodologies that are regularly reviewed and revised by management. Other non-GAAP financial measures used by the Company include "sources of earnings", "embedded value", "sales", and "premiums and deposits". Management believes that these non-GAAP financial measures provide information useful to investors in understanding the Company's performance and facilitate the comparison of the quarterly and full year results of the Company's ongoing operations. These non-GAAP financial measures do not have any standardized meaning and may not be comparable with similar measures used by other companies. They should not be viewed as an alternative to measures of financial performance determined in accordance with GAAP.

The investment management policies and interpretation of Sun Life Financial's results in 2007 will be affected by the implementation of the new Canadian accounting standards for reporting financial instruments in financial statements. In 2007, the calculation of operating ROE will exclude other comprehensive income (OCI) and certain related amounts. For additional information on OCI see page 36 of this MD&A under the heading "Accounting policies" as noted below.

The items discussed below were not included in the Company's operating earnings, operating EPS and operating ROE.

In the first quarter of 2006 and the fourth quarter of 2005, the Company recorded after-tax charges to income of $2 million and $12 million respectively, from integration costs on the CMG Asia acquisition.

In the third quarter of 2005, the Company took a $51 million after-tax charge to income in relation to the sale of Cuprum. The loss on the sale mostly arose from the depreciation of the Chilean peso against the Canadian dollar since the interest in Cuprum was acquired in 1998.

In the first quarter of 2004, the Company recorded a $59 million after-tax charge to income for the March 31, 2004 settlement by MFS of an administrative proceeding with the SEC regarding disclosure of brokerage allocation practices.

The impact on the Company's EPS of the items described above is summarized in the adjacent table.

Impact of Special Items on Basic Earnings per Share

($ per share)	**2006**	2005	2004
EPS - Reported (GAAP-based)	**3.62**	3.14	2.81
Net gains (losses) on special items	**—**	(0.10)	(0.10)
EPS - Operating	**3.62**	3.24	2.91

Reconciliation of Operating Earnings

($ millions)	**2006**					2005				
	Q4	**Q3**	**Q2**	**Q1**	**Total**	Q4	Q3	Q2	Q1	Total
Reported earnings (GAAP-based)	**545**	**541**	**512**	**491**	**2,089**	478	430	477	458	1,843
After-tax gains (losses) on special items										
CMG Asia integration costs	**—**	**—**	**—**	**(2)**	**(2)**	(12)	—	—	—	(12)
Net loss on sale of Cuprum	**—**	**—**	**—**	**—**	**—**		(51)	—	—	(51)
Total special items	**—**	**—**	**—**	**(2)**	**(2)**	(12)	(51)	—	—	(63)
Operating earnings	**545**	**541**	**512**	**493**	**2,091**	490	481	477	458	1,906

SLF Canada

Business profile

SLF Canada is a market leader with a customer base exceeding six million Canadians. SLF Canada offers a full range of protection and wealth management products and services to individuals and corporate clients through its three business units – Individual Insurance & Investments, Group Benefits and Group Wealth. SLF Canada has two key investments in the Canadian asset management sector that leverage its core operations. Individual Insurance & Investments includes a 36.5% interest in CI Financial, and Group Wealth includes a 56% interest in McLean Budden Limited. While each of its three business units is focussed on their respective markets, SLF Canada recognizes the opportunity to serve its clients through the combination of some aspects of these businesses. This has led to the formation of SLF Canada's Total Benefits offering for group clients and Customer Solutions, which addresses the needs of individual and group clients as they do business with the Company.

Industry profile

Consolidation of the life insurance industry in Canada has led the three large insurers to account for approximately two-thirds of the life, health and annuity segments in Canada as measured by business in-force. These companies serve the core markets with a number of small to medium-sized companies operating in regional and niche markets. It is becoming increasingly important that a company have economies of scale, good customer service, strong distribution capabilities, technological innovation, and deliver excellence, to be successful.

Business analysis

SLF Canada represents a well-positioned franchise in the Canadian marketplace. Its competitive products and distribution capabilities help distinguish it from its competitors.

Strengths

- SLF Canada's Individual Insurance & Investments business has national market leadership positions in both protection and wealth
- A multi-distribution strategy with the Clarica Sales Force providing a stable level of sales in the large mid-market segment and the growing third-party channel capturing a bigger share of the high net worth market
- The strategic partnership with CI Financial leverages its strong asset management products and SLF Canada's unique distribution capabilities
- The group businesses distinguish themselves with leading market share, long-standing customer relationships, a regional service delivery model, service innovations and recognized capability in delivering customized solutions
- The Total Benefits offering allows for integrated access to group products and services by members and sponsors
- The asset retention rollover business in GRS leads the competition by a wide margin in terms of sales
- A risk management focus that continues to strengthen and enable business decision making

Opportunities

- The aging population has created growth opportunities in both the health and retirement markets
- There are increased rollover opportunities to capitalize on asset retention from plan members retiring or terminating employment
- Increasing benefit and pension cost pressures faced by companies as a result of increased longevity, rising health care costs and the low interest rate environment
- Technological innovations are leveraged to the medium-sized group businesses to enhance their employee offerings and lower costs

Strategy

SLF Canada's strategy is to:

- Solidify its leadership position in its core businesses
- Increase its share of the growing retirement and health markets
- Continue to build on its plan sponsor foundation and gain access to a much broader member base
- Leverage capabilities across business groups and business units to gain competitive advantage

2007 priorities

- Grow the third-party distribution channel and continue to strengthen distribution capabilities in the Clarica Sales Force
- Increase market share in the small to medium-sized group business market segments
- Continue to grow the rollover and voluntary group retirement businesses and enhance the advice-based channels to meet the needs of baby boomers as their demand for advice increases
- Maintain disciplined focus on expense management

Summary statement of operations

($ millions, except as noted)	**2006**	2005(1)	2004(1)
Premiums	**5,721**	5,314	4,970
Net investment income	**2,993**	2,780	2,660
Fee income	**619**	564	532
Total revenue	**9,333**	8,658	8,162
Client disbursements and change in actuarial liabilities	**6,277**	5,625	5,345
Commissions and other expenses	**1,774**	1,660	1,603
Income taxes	**262**	385	293
Non-controlling interests in net income of subsidiaries	**19**	17	14
Par policyholders' income	**6**	8	12
Common shareholders' net income	**995**	963	895

Selected financial information			
Earnings by business unit			
Individual Insurance & Investments	**585**	572	511
Group Benefits	**247**	246	252
Group Wealth	**163**	145	132
Total	**995**	963	895
ROE	**14.1%**	14.5%	13.5%
Total AUM ($ billions)	**124.1**	114.3	105.1

(1) Certain comparative figures have been reclassified to conform with the presentation adopted in 2006.

Financial and business results

SLF Canada's common shareholders' net income of $995 million increased $32 million over 2005 due to higher Group Wealth and CI Financial earnings, partially offset by a return to more normal annuity mortality experience in Individual Insurance & Investments.

Revenue for 2006 was $9.3 billion, up by 8% over 2005 with growth in premiums, investment income and fee income. Group Benefits performed strongly in 2006 with net sales up more than 30% over 2005, supported by continued industry-leading client retention rates exceeding 97%. GRS had an outstanding sales year with gross sales over $2.0 billion, and rollover sales, a key strategic focus, exceeded $500 million with $2.2 billion of rollover assets under management at December 31, 2006. Individual Insurance & Investments wholesale sales grew by 70% over 2005 and productivity from the Clarica Sales Force improved in both insurance and wealth sales.

ROE(1) for SLF Canada declined to 14.1% compared to 14.5% a year ago, primarily due to a regulatory increase in segregated fund capital of $350 million over 2005.

Total AUM were $124.1 billion at the end of 2006, up 9% from the 2005 level. Higher equity market levels and net sales of segregated, mutual and managed funds drove the AUM growth.

Outlook

The pace of Canada's economic growth continued to ease over the last half of 2006 but unlike the risk of a rough landing that exists in the United States, the Canadian economic outlook remains upbeat for 2007 and even better for 2008. The growth in Canada is primarily based on continuing strength in resource prices and expansion of capacity. This strength continues to drive growth in after-tax household incomes, which is expected to continue strong through 2008. The availability of additional income combined with continuation of the low level of interest rates and a favourable credit environment will provide SLF Canada opportunities for additional sales growth as well as challenges in a continuing competitive environment.

(1) ROE for the business segments is a non-GAAP measure. For additional information see Non-GAAP financial measures on page 15.

Results by business unit

Individual Insurance & Investments

SLF Canada's Individual Insurance & Investments business unit follows a distribution-centric strategy. A full suite of life insurance and health insurance as well as savings and retirement products is made available to individuals through multiple distribution channels. The advice-based distribution channels help clients understand that financial planning prepares one for a sound financial future.

Individual Insurance & Investments, principal insurance products include universal life, term life, permanent life, critical illness, long-term care and personal health insurance. Its principal savings and retirement products include accumulation annuities, payout annuities and segregated funds. These products are marketed through a distinctive, multi-channel distribution model composed of the exclusive Clarica Sales Force, wholesale distribution and direct channels. In addition, the Clarica Sales Force predominantly distributes mutual funds marketed by CI Financial.

Individual Insurance & Investments, earnings increased to $585 million in 2006 from $572 million in 2005. Increased investment earnings, the impact of strong equity markets and lower expenses more than offset the abnormally high annuity mortality gains in the prior year. Earnings from the Company's 36.5% ownership in CI Financial were $127 million after tax in 2006, up 20% from 2005.

Individual life and health insurance sales rose by 8% over 2005 from $151 million to $163 million. In particular, insurance sales from the wholesale distribution channel grew by 70% to $34 million in 2006, demonstrating the steady progress in gaining traction in this channel. The Clarica Sales Force insurance sales were flat over 2005 with improved productivity per advisor offsetting a slight decline in the number of advisors due to the challenging agent recruiting environment.

Individual wealth sales increased by $171 million, or 7%, to $2,567 million in 2006 from the boost in sales of guaranteed and payout annuity products. Guaranteed and linked note product sales improved by $54 million in 2006, while payout annuity sales surpassed the 2005 results by $122 million.

Several successful marketing campaigns held during the year for existing policyholders contributed $4 million in sales. The increased emphasis on additional direct marketing to existing policyholders helps expand SLF Canada's protection and Wealth Sales.

Group Benefits

SLF Canada's Group Benefits business unit is a leading provider of group life and health insurance products in Canada, providing services to more than 11,000 employers with a market share of approximately 21.2%, based on new annualized premium and premium equivalents for the year ended December 31, 2005. The business unit provides life, dental, drug, extended health care, and disability and critical illness benefit programs to employers of all sizes. Group Benefits competes on the strength of its scale, product and service offerings, regional delivery model, industry-leading technology and the innovative Total Benefits offering. Group Benefits products are marketed and distributed across Canada by experienced sales representatives in collaboration with independent advisors and benefit consultants.

In 2006, Group Benefits continued to focus on Healthy Returns™, its innovative wellness offering service, with the introduction of tools such as individual health assessments, which enable plan sponsors to assess the health of their organizations. This focus helped Group Benefits to retain key clients and improve the client, advisor and member service experiences.

Group Benefits' 2006 common shareholders' net income of $247 million remained virtually flat to 2005, reflecting the combination of higher investment and expense related gains and lower morbidity gains. Group Benefits recognized continued growth through its Total Benefits offering, which integrates access to the services of Group Benefits, GRS and preferred third-party providers, to enhance the customer experience. Total Benefits partnered with best-in-class pension, payroll and human resources information system suppliers to provide one-stop service for clients.

Net sales, measured by annualized premiums and premium equivalents less cancellations, increased 30% to $224 million in 2006. The increase reflected SLF Canada's success in the large case segment (1,000 lives +) and excellent progress in the small to mid-market sector (3 - 999 lives). Client retention also remained strong, with cancellation rates at less than 3% of premium and premium equivalents. This led to business in-force increasing by 10% from December 31, 2005, to $5.7 billion as at December 31, 2006.

Group Wealth

SLF Canada's Group Wealth business unit consists of the GRS operation as well as the Company's 56% ownership interest in McLean Budden Limited, a premier institutional provider of investment management services in Canada. GRS is the largest provider of defined contribution plans in Canada(1). 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. GRS's strength in product and investment offerings, including the innovative Total Benefits, customer service and technological capabilities meet the complex plan and service requirements of medium to large organizations, while still being able to provide cost-effective solutions to the small employer market. GRS had a 30% market share(1) in Canada based on defined contribution plan AUM serving one million plan participants at the end of 2006. GRS distributes its products and services through a multi-channel distribution network of pension consultants, brokers and advisors.

Group Wealth net income increased to $163 million in 2006 from $145 million in 2005, primarily due to increased earnings from fee-based businesses and favourable mortality experience in the payout annuity segment. AUM of $71 billion grew by 11% with strong sales results, positive cash flow and improved equity markets.

GRS sales reached $2.1 billion in 2006 as a result of consistently strong sales across all product categories to both small and large clients. GRS increased its Corporate sales by $121 million or 50% over 2005 and sales also benefited by $48 million over last year from the offering of rollover products to members leaving defined contribution plans. This product complements its core products and services to members of defined contribution plans.

In 2006, GRS continued its focus on sales, asset retention and improving the client, advisor and member experience. With the overall largest market share in the defined contribution pension business in Canada, GRS has nearly 50% market share of clients with over 5,000 member accounts. This unique segmentation and overall market position allow GRS to leverage its scale, develop innovative products and provide customized client solutions across a wide variety of clients.

(1) As measured by Benefits Canada magazine's 2006 Defined Contribution Plan Survey released in December 2006.

SLF U.S.

Business profile

SLF U.S. focuses on the delivery of innovative protection and wealth accumulation products to individuals and businesses through its three business units - Annuities, Individual Life and Group Life & Health. The Annuities business unit offers variable annuities, fixed annuities, private placement variable annuities for high net worth clients, fixed index annuities, 401(k) products and administration, and investment management services. The Individual Life business unit offers protection products for affluent consumers and business owners. Products include single and joint universal life and variable universal life, corporate-owned and bank-owned life insurance (COLI/BOLI), and private placement variable universal life for high net worth clients (PPVUL). The Group Life & Health business unit offers group life insurance, short-term and long-term disability insurance, and medical stop-loss insurance for employers.

Industry profile

The life, health and annuity insurance markets in the United States have a large number of competitors, but over one half of the overall market share is held by the top 10 companies. The need for scale creates potential acquisition opportunities for larger, better capitalized organizations.

With over 75 million baby boomers in the United States, an increasing number of people are entering retirement at a time when life expectancy is on the rise. This presents SLF U.S. with significant opportunities to provide both wealth accumulation and protection products. The changing trend in corporate retirement programs to place more responsibility for financial retirement decisions with individuals escalates these opportunities.

A similar trend has developed in the employee health benefits marketplace where rising health care costs have led employers to increasingly shift the cost of benefits to employees. Opportunities exist for group benefits providers who can successfully attract a share of employee dollars allocated to these benefits.

The regulatory environment continues to heighten business compliance requirements. Financial institutions are finding it more challenging to operate under increasing levels of regulation.

Business analysis

To compete effectively in a highly competitive market, SLF U.S. has chosen to focus on strategic market segments, providing protection and wealth accumulation products for wholesale distribution in select markets. Organic growth continues to be a cornerstone for SLF U.S.'s success, with deeper penetration into existing markets achieved in 2006.

Strengths

- Diversified product mix
- Broad and expanding distribution network that offers opportunities to effectively cross-sell
- Multi-site service strategy that allows for enhanced customer service
- Strong risk management helping to ensure financial stability

Opportunities

- Leverage the power of its distribution network across all product lines
- Increase retention of in-force business
- Introduce additional innovative products to meet consumer needs
- Serve the needs of the growing retirement market
- Industry consolidation may serve as a catalyst for SLF U.S. to augment operations through additional focused acquisitions, which would provide operational scale in its core businesses

Strategy

SLF U.S.'s long-term goal is to achieve a top 10 market rank in selected markets by:

- Enhancing distribution capabilities and productivity
- Achieving recognition as a product and solution expert by leveraging customer knowledge, risk management and investment expertise
- Focusing on deeper penetration into existing distributor networks and adding specialty distributors
- Extending product range, distribution and market reach in all core business lines
- Pursuing acquisitions that will increase shareholder value by creating economies of scale, efficiencies and enhanced market presence

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2007 priorities

- Improve Individual Life profitability
- Successfully integrate the employee benefits group business to be acquired from Genworth
- Achieve growth in variable annuities
- Expand the geographic reach and range of product offerings
- Continue service centre improvement initiatives

Financial and business results

For the year ended December 31, 2006, SLF U.S. reported earnings of $448 million, down $47 million, or 9%, from 2005. The strengthening of the Canadian dollar against the U.S. dollar during 2006 decreased earnings by $31 million, based on 2005 exchange rates.

On a U.S. dollar basis, earnings decreased by US$14 million to US$395 million from US$409 million in 2005, primarily due to the new business strain of US$60 million, the US$16 million unfavourable impact of increased reinsurance rates on Individual Life actuarial reserves, and a loss of US$16 million from RSI, which was transferred to SLF U.S. from MFS early in 2006. These decreases were partially offset by US$36 million in improved spread income and the positive impact of equity market movements of US$24 million in Annuities. SLF U.S. is also continuing to leverage its multi-site service strategy to improve service capability and reduce costs.

Revenue for the year was US$9.3 billion, up US$1.7 billion, or 23%, from 2005, as all lines of business except fixed index annuities increased sales over 2005. New distribution partnerships and product portfolio strengthening that occurred in 2006 also started to benefit the business.

SLF U.S.'s ROE(1) decreased to 11.5% in 2006 from 12.9% in 2005 as a result of lower earnings and higher capital requirements.

Total AUM were US$63 billion at December 31, 2006, up 8% from a year ago.

Outlook

Economic growth weakened considerably in the United States in the second half of 2006. There was a slowing in sales of homes, vehicles and durable goods. The United States dollar held its own against most world currencies in the latter half of 2006. This trend is expected to continue into 2007 as is the steadying of interest rates. The current outlook for the United States economy shows a continuing risk of slowdown in most sectors. However, these economic challenges present significant opportunities for companies such as Sun Life Financial as consumers look to organizations with financial strength and stability for savings and investment opportunities.

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(1) ROE for the business segments is a non-GAAP measure. For additional information see Non-GAAP financial measures on page 15.

Summary statement of operations (C$ millions)	**2006**	2005	2004
Premiums	**7,261**	6,246	6,465
Net investment income	**2,512**	2,298	2,355
Fee income	**692**	617	609
Total revenue	**10,465**	9,161	9,429
Client disbursement and change in actuarial liabilities	**8,054**	6,993	7,330
Commissions and other expenses	**1,941**	1,560	1,652
Income taxes	**21**	113	55
Non-controlling interests in net income of subsidiaries	**—**	(1)	—
Par policyholders' income	**1**	1	1
Common shareholders' net income	**448**	495	391
Selected financial information (US$ millions, except as noted)			
Earnings by business unit			
Annuities	**298**	268	184
Individual Life	**50**	100	81
Group Life & Health	**47**	41	35
Total	**395**	409	300
Total revenue	**9,248**	7,539	7,245
Common shareholders' net income	**395**	409	300
ROE	**11.5%**	12.9%	10.4%
Total AUM (US$ billions)	**63.1**	58.4	56.1

Results by business unit

Annuities

The SLF U.S. Annuities business unit provides fixed, variable and fixed index annuity products, 401(k) products and administration and investment management services. It is an integral part of the SLF U.S. growth platform. Broad distribution, risk management and industry-leading customer service capabilities support its suite of products. Annuities earnings for the year increased by US$30 million compared to the same period in 2005 on improved fixed annuity spread income of US$36 million and the positive impact of equity markets movements of US$24 million. A loss of US$16 million from RSI, which distributes 401(k) plans, and was transferred to SLF U.S. from MFS on January 1, 2006, partly reduced these increases.

Annuity sales for 2006 of US$5.5 billion included the US$1.8 billion from the issuance of MTNs in 2006 compared to the US$900 million MTN issue in 2005. Without the impact of the MTNs, annuity sales were up 9% from last year, primarily due to the 30% increase in gross domestic variable annuity sales. The investment in distribution and product development contributed to this growth. A significant number of new or enhanced products with innovative features were introduced, including a new optional living benefit rider for variable annuities.

Fixed and fixed index annuity sales of US$1.2 billion decreased 11% from 2005 due to rising competition from certificates of deposits.

Individual Life

SLF U.S.'s Individual Life business unit serves high net worth individuals and business owners through competitively priced, high-quality products including single and joint universal life, COLI / BOLI and PPVUL. The business unit accesses its target customers through general agents and third-party intermediaries.

Individual Life earnings in 2006 were US$50 million compared to US$100 million in 2005. The impact of increased new business strain of US$60 million from significantly higher sales and a change in the mix of business, and the US$16 million reserve impact of increased reinsurance rates drove the earnings decline for 2006. An increased proportion of earnings from lower tax jurisdictions moderated the decrease.

US$216 million of core universal life sales, which excluded specialty product sales (COLI / BOLI, PPVUL and off shore), were up 143% over 2005. This sales increase reflected the new distribution relationships with M Financial and National Financial Partners and the late 2005 introduction of re-priced universal life single and joint life products.

Large case BOLI new premium and deposits were US$537 million, an increase of US$473 million over 2005. The new BOLI Pooled Stable Value product, designed for the community bank market, contributed US$68 million to 2006 premiums and deposits.

Group Life & Health

SLF U.S.'s Group Life & Health business unit leverages its strong underwriting expertise and extensive distribution capabilities to provide group life, long-term and short-term disability, and medical stop-loss insurance to over 8 million group plan members. It currently provides customer-focused products and services to meet the group insurance needs of small to medium-sized companies. Growth strategies include expanding into the larger case market. The business unit's group insurance products are marketed and distributed by its 131 sales representatives in 24 regional sales offices across the United States. These representatives maintain close relationships with independent brokers and consultants who deal directly with employers.

Group Life & Health earnings in 2006 were US$47 million, an increase of 15% over 2005 primarily due to a larger block of in-force business and improved experience. The operating expense-to-insurance premium ratio improved to 13.5% in 2006 as compared to 14% a year ago.

Revenue for the year increased by US$153 million, or 16.5%, from US$924 million in 2005, primarily driven by higher sales from sales force expansion. Group Life & Health achieved record net sales of US$190 million, a rise of 24% from 2005, benefiting from the expanded distribution through the relationship with Medical Group Insurance Services Inc.

Business in-force as of December 31, 2006 grew to over US$1.2 billion, up 19%, from December 31, 2005. A reputation for quality service and the financial strength of the Company helped achieve a persistency rate of 81%.

The Genworth acquisition will add significant scale and scope to SLF's U.S. group business. Genworth's group operations, which primarily offer group life, disability, stop-loss and dental insurance, will strengthen and complement Sun Life Financial's existing product offerings in the U.S. The acquisition will significantly enhance Sun Life Financial's market share across its U.S. group lines of business and position the Company as the second largest U.S. medical stop-loss provider. In addition, Genworth's extensive distribution network and focus on the small-case employer market will help accelerate Sun Life Financial's group insurance growth strategy in the U.S.

MFS

Business profile

MFS is a global investment management company, which offers products and services that address the varying needs of investors over time. Individual investors have access to MFS's advisory services through a broad selection of financial products including mutual funds, variable annuities, separate accounts, college and retirement savings plans, and offshore investment products. These products are distributed through financial intermediaries that provide sales support, product administration and client services. MFS provides asset management services to institutional clients for corporate retirement plans, separate accounts, public or government funds and insurance company assets. Institutional clients are serviced through a direct sales force and a network of independent consultants. As at December 31, 2006, the Company's ownership interest in MFS was 96% with the remainder owned by MFS's employees.

Industry profile

There are a number of factors within the external environment that make the global investment management industry exceedingly competitive and impact an organization's ability to thrive. A few large players dominate the United States retail mutual funds sector as the portion of market share available to small and medium-sized organizations continues to dwindle. Individual and institutional investors alike demand a wide array of investment options, as they look for greater absolute returns. U.S. regulatory bodies continue to issue guidelines that make it increasingly challenging for brokers to sell mutual funds, thereby accelerating the attractiveness of alternative products.

In 2006, non-mutual fund investment vehicles continued to gain traction and reduce the overall mutual fund market share. Hedge funds kept attracting money, albeit at a lower growth rate. Other products, such as wrap programs and exchange-traded funds (ETFs), showed significant increases over the last year.

The almost perfect performance transparency in the global asset management arena and the industry's move towards intermediary investment platforms continue to increase the importance of investment performance for an organization's long-term success. As the industry progressively migrates towards multi-manager open architecture platforms, the trend shifts towards investment only products on third-party distribution and servicing platforms.

Business analysis

Over the past few years, MFS has evolved beyond domestic retail, successfully positioning itself as a global asset manager. Through organic growth, MFS has expanded its global distribution and product reach.

Strengths

- Diversified asset base that balances the expected performance cycles in each individual asset category
- Strong client/wholesaler relationships
- Strength in the global institutional marketplace, with enhanced global distribution
- Excellent record of superior investment performance in key investment styles, including newer offerings targeted to sophisticated investors

Opportunities

- International equity and fixed income investment category performance continues to provide additional opportunities in the institutional marketplace
- Unique investment opportunities to gather fixed income assets through structured investment products
- Continued improvement in investment performance and increased scale in offshore and separate account segments will provide additional opportunities for profit growth

Strategy

MFS's strategy is to:

- Develop and nurture an investment process that targets consistently above average long-term investment performance across all major investment styles
- Continue to develop its distribution focus in three distinct channels, which are institutional, retail and advisory. This includes a newly created advisory resource team dedicated to develop and deliver performance and product information to dealers and third parties

2007 priorities

- Improve domestic equity investment performance and sustain long-term performance
- Increase domestic mutual fund sales and net flows
- Increase profit margins

Summary statement of operations

(C$ millions)	**2006**	2005	2004
Total revenue	**1,662**	1,648	1,700
Commissions and other expenses	**1,271**	1,355	1,471
Income taxes	**150**	110	108
Non-controlling interests in net income of subsidiaries	**7**	4	7
Common shareholders' net income (loss) — reported	**234**	179	114
Plus: Regulatory settlement provisions	**—**	—	59
Common shareholders' net income - - Operating	**234**	179	173

Selected financial information

(US$ millions, except as noted)			
Total revenue	**1,464**	1,360	1,306
Common shareholders' net income			
Reported	**206**	147	88
Operating	**206**	147	133
Sales (US$ billions)			
Gross	**37.0**	38.8	29.5
Net	**0.2**	7.5	(8.9)
AUM (US$ billions)	**187**	162	146
Average net assets (US$ billions)	**172**	151	138

Financial and business results

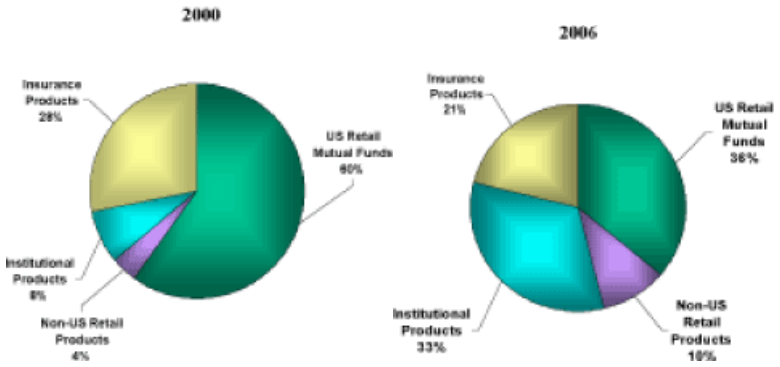
MFS common shareholders' net income of $234 million for 2006 rose $55 million, or 31%, from $179 million in 2005 in spite of the strengthening of the Canadian dollar against the U.S. currency. This currency effect decreased MFS's 2006 reported earnings by $16 million, based on 2005 exchange rates.

On a U.S. dollar basis, earnings grew by US$59 million, or 40%, to US$206 million in 2006 due to the impact of increased fee income on higher average net assets. An additional US$13 million arose from the transfer of RSI operations to SLF U.S.

Fee income in 2006 rose by US$59 million from 2005 levels on higher average net assets of US$21 billion, although the effective asset-based fee rate declined throughout the year. The advisory revenue portion of fee income increased by 14% to US$857 million but other sales and servicing revenues declined, primarily due to the transfer of RSI to SLF U.S. in early 2006. The remainder of the revenue increase was mostly attributable to higher investment income.

AUM ended 2006 at US$187 billion, an increase of 15% for the year, with positive market action of US$24 billion contributing to the growth. Average net AUM increased by 14% to US$172 billion in 2006, up from US$151 billion in 2005.

Trends in Gross Sales



A shift in gross sales in recent years to a more diversified product lineup has occurred as illustrated in the above chart. The strong growth in institutional, insurance and non-U.S. retail product sales has helped to balance MFS's overall portfolio of managed assets. MFS had mixed net flows results in 2006. MFS had overall net positive flows of US$226 million with positive institutional product net flows slightly higher than net outflows of retail mutual funds for the year.

Outlook

The outlook for the global economic and business environment is expected to remain favourable, although it's anticipated that the U.S. economy will moderate with the slowing of the housing market and lower corporate profits. Interest rates are stable, inflation is not the problem it was in the recent past, and companies are expanding their spending and sales. The U.S. economic fundamentals, led by corporate profits and workers' income, are still strong. Recent weakness related to the fall in residential house prices seems limited and, as of now, does not seem likely to bring the U.S. into recession. Meanwhile, market conditions and economic fundamentals are accelerating in Europe and Japan. These economic conditions are expected to be beneficial to help MFS expand its global assets under management through organic growth and strategic acquisition of product both within the U.S. and worldwide.

SLF Asia

Business profile

SLF Asia operates in five markets, through subsidiaries in the Philippines, Hong Kong and Indonesia and through joint ventures with local partners in India and China. It provides individual life insurance products and services in all operations, and savings, retirement and pension products and services in India, the Philippines and Hong Kong. Group insurance is also offered in India, the Philippines, Hong Kong and China. These protection and wealth management products are distributed to individuals, employer-employee groups and affinity clients.

Industry profile

The life insurance markets in which SLF Asia competes range from developing and increasingly competitive markets, such as India and China, to the more mature market of Hong Kong. The India and China markets have a few dominant, largely state-owned players. Entry into the emerging markets is through joint ventures with a local partner.

The strong economic growth in the region has had a ripple effect on equity markets, creating increased interest in long-term investment instruments, particularly unit-linked products. In the emerging markets, a growing middle class, with rising disposable income and a high savings rate, desires the same types of products and services that are available in the more mature economies. The combination of an aging population and the shifting of medical and retirement costs to the public should lead to a demand for products that address individual concerns over health care, education and retirement.

Business analysis

SLF Asia represents a long-term growth engine for Sun Life Financial. As such, it is developing and increasing its presence in the five select markets in which it currently competes by expanding its product range and distribution channels.

Strengths

- Sun Life Financial's favourable reputation is a key differentiator in emerging markets
- International resources and expertise are available to complement the local talent to deliver the sales and develop innovative products
- Sun Life Financial has a long history in several markets, demonstrating its commitment to the region
- Solid risk management processes

Opportunities

- Several markets have a growing affluent and middle class, with increasing needs for wealth management solutions
- Life insurance is still new to several markets, creating an opportunity to grow sales, increase market share and improve operational scale in these areas
- Leverage the Company's North American expertise in group life and health insurance, pension products and asset management to open up new lines of business in Asia
- A demand for value-added health and retirement products by individuals and employers is emerging as the public "safety net" erodes in many countries across Asia

Strategy

- Develop SLF Asia into a significant long-term revenue and earnings growth operation
- Build multiple distribution channels that can deliver innovative products to different market segments
- Enhance investment-linked product offerings to provide greater value and choice to the customer
- Leverage Sun Life Financial's worldwide resources to bring industry-leading products, services and best practices to Asia

2007 Priorities

- Secure new distribution alliances, including bancassurance in key markets
- Continue to leverage the expanded distribution capacity and synergies achieved through the CMG Asia acquisition
- Expand the geographic reach and range of product offerings for multi-channel distribution in the Philippines
- Explore cross selling opportunities by leveraging the distribution channels of the joint venture in India
- Continue the geographic expansion in China

Summary statement of operations

($millions, except as noted)	**2006**	2005(1)	2004(1)
Premiums	**640**	524	506
Net investment income	**318**	223	185
Fee income	**64**	12	3
Total revenue	**1,022**	759	694
Client disbursements and change in actuarial liabilities	**621**	499	470
Commissions and other expenses	**283**	201	165
Income taxes	**17**	17	14
Common shareholders' net income	**101**	42	45
Selected financial information			
Sales – New annualized premiums Individual life (2)	**337**	261	239
Total AUM ($ billions)	**8.9**	7.3	2.5

(1) Certain comparative figures have been reclassified to conform with the presentation adopted in 2006.

(2) Includes 100% of sales for joint ventures. Individual life sales would be $236 million, $181 million and $162 million for 2006, 2005 and 2004, respectively, if joint venture sales were included at 50%.

Financial and business results

SLF Asia contributed $101 million to Sun Life Financial's common shareholders' net income for the year ended December 31, 2006, an increase of $59 million from the prior year. Excluding CMG Asia net integration costs, operating earnings were $58 million higher than the 2005 operating earnings of $45 million. The CMG Asia acquisition that occurred in the fourth quarter of 2005 largely accounted for the growth in earnings, on both a reported and operating basis. The increase was dampened by reserve strengthening of $8 million in the Company's Indonesian operations related to the impact of the drop in interest rates and expenses on its actuarial liabilities. Sun Life Financial's Philippines new business strain from pre-need sales and pre-need reserve strengthening for lower interest rates also reduced earnings by $9 million.

SLF Asia's total revenue increased by 35% to $1,022 million in 2006, including the unfavourable impact of $39 million from currency fluctuations due to the stronger Canadian dollar. The CMG Asia acquisition increased premiums and net investment income by $171 million and $81 million, respectively, over 2005. These increases were partly offset by a reduction in premiums from lower single premium bancassurance sales in SLF Asia Hong Kong Operations.

SLF Asia produced a strong sales momentum throughout 2006, as sales grew by 30% in Canadian currency and 38% on a local currency basis over 2005. The CMG Asia acquisition, the expansion of the direct sales force in India and the increased presence in China all contributed to the sales boost.

Outlook

The Asian marketplaces have varying outlooks, each of which will provide challenges and opportunities moving forward. The general interest rate and currency rate volatility seen throughout Asia is expected to continue into 2007 and beyond. The competition for human resources which has evolved over the last several years in most of the Asian economies in which Sun Life Financial operates is expected to continue at a heightened pace. These trends will provide challenges as well as growth opportunities for increased unit-linked and other product sales for financial services organizations, like Sun Life Financial, which have financial strength and solid reputations.

Results by business unit

Philippines

Sun Life Financial's Philippines operations distribute a diverse range of protection and savings products largely through their proprietary career agent sales force. The Company offers traditional and unit-linked individual life insurance products, savings products (including those for pre-need pension and education) as well as mutual funds to individuals, while group life and health insurance products are marketed to employer groups.

On a local currency basis, strong pre-need sales development through creative marketing strategies that culminated in a leadership position in the pre-need market drove the individual sales increase of 38% in 2006. Sales in the asset management business increased by 103% over 2005, with AUM growing by 58% in 2006. Sun Life Financial's Philippines operations increased their presence by expanding to 52 sales offices and 37 customer centres in 2006, and will help to sustain their long-term growth prospects.

Hong Kong

The Company's Hong Kong operation offers a complete range of products to address protection and savings needs. Individual life insurance, group life and health insurance, mandatory provident funds (the government-legislated pension plan) and pension administration are supplied to individuals and businesses through a multi-channel distribution system that includes a career agency force, bancassurance and brokers.

Individual insurance sales rose by 32% in local currency in 2006, driven by the growth in the career agency channel as a result of the CMG Asia acquisition in late 2005. In 2006, the Company completed several key elements of the integration of CMG Asia, particularly those related to distribution and products.

India

Birla Sun Life, the Company's insurance joint venture in India, provides a full array of individual life insurance, group life insurance and group savings products. The Company markets these products through a multi-channel distribution network, including a career agent sales force, bancassurance arrangements, brokers and worksite marketing, to reach different segments of the market.

Birla Sun Life Asset Management Company Limited, the Company's asset management joint venture in India, offers a full array of mutual fund products to individuals and institutional investors. Independent financial advisors and banks deliver Birla Sun Life mutual funds to the retail sector, while direct distribution serves Corporate accounts.

In local currency, Birla Sun Life's individual life insurance sales in 2006 were up 34% over 2005 on strong bancassurance sales and career agency growth. Birla Sun Life opened 61 new branches, and the career agents reached about 34,000 from about 14,000 at the end of 2005. Birla Sun Life Asset Management Company Limited achieved 69% higher net sales on a local currency basis than 2005, improving AUM by $1.5 billion.

China

Sun Life Everbright, the Company's joint venture in China, operates a multi-distribution model that combines a direct career agency and several banc assurance alliances to sell individual life and health insurance and savings products. Group life and health insurance, along with pension products, are provided to employer groups through brokers, agents and the China Everbright Group Limited, the Company's joint venture partner.

Sun Life Everbright sales, in local currency, more than doubled the 2005 volume with triple-digit sales growth occurring in Beijing and Zhejiang province. Expansion continued as sales offices in seven cities in the Zhejiang province and one branch office in Nanjing were opened during 2006.

Indonesia

SLF Asia's Indonesian operations provide both traditional and investment-linked individual life insurance to individuals through a career agent sales force and banc assurance partners. Life insurance products are also marketed to affinity groups via telemarketing. The growth in the career agency compounded by strong bancassurance sales drove the 2006 sales increase of 47% in local currency over 2005.

Corporate

Business profile

The Corporate segment includes the results of SLF U.K., the Company's active Reinsurance business unit and Corporate Support operations, which include run-off reinsurance and revenue and expenses of a corporate nature not attributable to the Company's other segments.

Summary statement of operations(1)

($ millions)	**2006**	2005(2)	2004(2)
Premiums	**987**	856	962
Net investment income	**802**	791	725
Fee income	**16**	45	58
Total revenue	**1,805**	1,692	1,745
Client disbursements and change in actuarial liabilities	**1,303**	1,261	1,394
Commissions and other expenses	**203**	334	316
Income taxes	**(61)**	(94)	(207)
Non-controlling interests in net income of subsidiaries	**1**	3	7
Dividends paid to preferred shareholders	**48**	24	—
Common shareholders' net income	**311**	164	235
Selected financial information			
Earnings by business unit			
SLF U.K.	**171**	192	173
Reinsurance	**93**	5	72
Corporate Support	**47**	(33)	(10)
Total	**311**	164	235

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

(2) Certain comparative figures have been reclassified to comform with the presentation adopted in 2006.

Financial and business results

For the year ended December 31, 2006, Corporate reported common shareholders' net income of $311 million, $147 million higher than in 2005. The Reinsurance business unit contributed $88 million to the increase due to better mortality and the absence of reserve strengthening which occurred in 2005. Corporate Support increased earnings by $80 million, primarily as a result of the absence of the $51 million after-tax charge to earnings in 2005 from the sale of Cuprum, favourable settlements in run-off reinsurance in 2006 and a $9 million after-tax charge to earnings in 2005 related to integration costs associated with the acquisition of CMG Asia.

Results by business unit

SLF U.K.

The SLF U.K. in-force life and pension policies constitute a run-off block of business, which is managed by a small corporate governance team. Most operating functions have been outsourced to external service providers.

For the year ended December 31, 2006, SLF U.K. earned $171 million compared with $192 million in the prior year. The 2006 results had $33 million of lower income tax releases than 2005 relating to the recognition of loss carry forwards and other settlements. This was largely offset by a $28 million decrease in project costs and other provisions. The weakening of the British pound sterling against the Canadian dollar reduced 2006 earnings by $10 million at 2005 rates.

Reinsurance

The active Reinsurance business unit provides customized reinsurance and risk management solutions, primarily for the life retrocession market. It enjoys a leadership position in the North American retrocession market with a 33% market share, and has an expanding presence within the European market.

For the year ended December 31, 2006, the Reinsurance business unit earned $93 million compared with $5 million in the prior year. A combination of more favourable claims experience, along with a reserve strengthening in 2005, contributed to the rise in common shareholders' net income. Underlying business growth supplemented the favourable experience as the Reinsurance business unit increased the reinsurance capacity it provides to some key clients.

In 2007, the Reinsurance business unit will continue to focus on improving operational and organizational efficiency to meet the demands of a changing market environment.

Corporate Support

Corporate Support operations include revenue and expenses of a corporate nature not attributable to Sun Life Financial's other segments as well as the Company's run-off reinsurance business, which consists mostly of accident and health reinsurance.

For the year ended December 31, 2006, Corporate Support had earnings of $47 million compared with a loss of $33 million in the prior year. The increase in common shareholders' net income in 2006, reflected the impact of favourable settlements in run-off reinsurance in 2006, the absence of the $51 million after-tax charge to earnings in 2005 from the sale of Cuprum and a $9 million after-tax charge to earnings in 2005 related to integration costs associated with the acquisition of CMG Asia.

Corporate developments

The following significant developments occurred in 2006.

Share repurchase program

SLF Inc. continued its share repurchase program in 2006 with the repurchase and cancellation of 12.4 million common shares at a cost of $575 million. On January 10, 2007, SLF Inc. announced its 2007 repurchase program for the purchase of up to 5% of its outstanding common shares, starting January 12, 2007.

Increased quarterly shareholder dividends

In 2006, SLF Inc. increased its quarterly common share dividend by 18%, reflecting the Company's strong financial performance, continued capital strength and positive outlook for the Company's future. The quarterly dividend payout per common share was increased from $0.255 to $0.275 in the first quarter of 2006 and from $0.275 to $0.30 in the third quarter of 2006.

On February 8, 2007, the Board of Directors approved an additional 7% increase in the quarterly dividend to $0.32 per share.

Financing arrangements

The Company routinely reviews its financing arrangements to enhance its capital efficiency and optimize its capital structure. Two series of Class A non-cumulative preferred shares were issued by SLF Inc. in 2006, Class A Preferred Shares Series 3 for an aggregate amount of $250 million that pay quarterly cash dividends at a per annum rate of 4.45% and Class A Preferred Shares Series 4 for an aggregate amount of $300 million that pay quarterly cash dividends at a per annum rate of 4.45%. SLF Inc. also issued $700 million of Series B Senior Unsecured 4.95% Fixed/Floating Debentures due in 2036, and $300 million of Series C Senior Unsecured 5.0% Fixed/Floating Debentures due in 2031.

Additional details of these transactions can be found on page 45 in this MD&A in the Capital section under the heading Financial position and liquidity and in Notes 11 and 15 to SLF Inc.'s 2006 Consolidated Financial Statements.

On February 2, 2007, SLF Inc. issued $250 million of Class A non-cumulative Preferred Shares Series 5, at $25 per share, paying non-cumulative quarterly dividends at a per annum rate of 4.50%.

U.S. Group benefits business acquisition

The Genworth acquisition will add significant scale and scope to Sun Life Financial's U.S. group business. Genworth's group operations, which primarily offer group life, disability, stop-loss and dental insurance, will strengthen and complement Sun Life Financial's existing product offerings in the U.S. The acquisition significantly enhances Sun Life Financial's market share across its U.S. group lines of business and positions the Company as the second largest U.S. medical stop-loss provider. In addition, Genworth's extensive distribution network and focus on the small-case employer market will help accelerate Sun Life Financial's group insurance growth strategy in the U.S. The transaction will be financed with existing capital.

Critical accounting estimates

SLF Inc.'s significant accounting and actuarial policies are described in detail in Notes 1, 2, 6, 7 and 10 to its 2006 Consolidated Financial Statements. Management must make judgments involving assumptions and estimates, some of which may relate to matters that are inherently uncertain under these policies. The estimates described below are considered particularly significant to understanding the Company's financial performance. As part of the Company's financial control and reporting, judgments involving assumptions and estimates are reviewed internally, by the independent auditor and by other independent advisors on a periodic basis. Accounting policies requiring estimates are applied consistently in the determination of the Company's financial results.

Benefits to policyholders

The Company's benefit payment obligations 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 requires management to make certain assumptions about equity market performance, interest rates, asset default, inflation, mortality and morbidity rates, policy terminations, expenses and other factors over the life of its products.

The Company uses best estimate assumptions for expected future experience. Some assumptions relate to events that are anticipated to occur many years in the future and are likely to require subsequent revision. Additional provisions are included in the actuarial liabilities to provide for possible adverse deviations from the best estimates. If the assumption is more susceptible to change or if there is uncertainty about the underlying best estimate assumption, a correspondingly larger provision is included in the actuarial liabilities.

In determining these provisions, the Company ensures

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

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

The following table summarizes the significant factors affecting the determination of policyholders' benefits, the methodology on which they are determined, and their significance to the Company's financial conditions and results of operations:

Critical accounting estimate	**Determination methodology and assumptions**	**Financial significance (measured as at December 31, 2006)**
Equity markets — the value of the Company's policyholder obligations for certain products is dependent on assumptions about the future level of equity markets	• The calculation of actuarial liabilities for equity market-sensitive products includes adequate provisions to absorb moderate changes in rates of equity market return with provisions determined using scenario testing under the standards established by the Canadian Institute of Actuaries	• For participating insurance products, a portion of the effect of changes in equity market movements is passed through to policyholders as changes in the amount of dividends declared For variable annuity guarantees (primarily in SLF • U.S.) and for certain annuity options in SLF U.K., a 1% reduction in the expected long-term equity market return assumption would decrease net income by $68 million
Interest rates — the value of the Company's policyholder obligations for all policies is sensitive to changes in interest rates	• The calculation of actuarial liabilities for all policies includes adequate provisions to absorb moderate changes in interest rates with provisions determined using scenario testing under the standards established by the Canadian Institute of Actuaries	• For certain product types, including participating insurance policies and certain forms of universal life policies and annuities, the effect of changes in interest rates is largely passed through to policyholders as changes in the amount of dividends declared or in the rate of interest credited • An immediate 1% increase in interest rates across the entire yield curve would result in an estimated increase in net income of $60 million • An immediate 1% parallel decrease in interest rates would result in an estimated decrease in net income of $242 million
Asset default provisions are included in actuarial liabilities for possible future asset defaults and loss of asset value in current assets and future purchases	• Based on a reduction in the expected future investment yield or a reduction in the value of equity assets recognized in the computation of actuarial liabilities	• Asset default provisions included in actuarial liabilities amounted to $2.6 billion on a pre-tax basis as at December 31, 2006

Critical accounting estimate	Determination methodology and assumptions	Financial significance (measured as at December 31, 2006)
Mortality — the rate of death for a defined group of people	• Generally based on the Company's average five-year experience • Industry experience considered where the • Company's experience is not sufficient Rates on annuities, where lower mortality rates result in an increase in actuarial liabilities, are • adjusted to reflect estimated future improvements in life span Rates for life insurance contracts do not reflect any future improvement that might be expected	• For products for which higher mortality would be financially adverse to the Company, a 1% increase in the best estimate assumption would decrease net income by $88 million • For products for which lower mortality would be financially adverse to the Company, a 1% reduction in the mortality assumption would decrease net income by $40 million
Morbidity — both the rates of accident or sickness and the rates of subsequent recovery for defined groups of people	• Generally based on the Company's average five-year experience • Industry experience considered where the • Company's experience is not sufficient Long-term care and critical illness insurance assumptions developed in collaboration with • reinsurers and largely based on their experience For those benefits where the Company or industry experience is limited, larger provisions for adverse deviation are included	• For products for which the morbidity is a significant assumption, a 1% adverse change in that assumption would reduce net income by $20 million
Policy termination rates — the rates at which policies terminate prior to the end of the contractual coverage periods	• Generally based on the Company's average five- • year experience Industry studies used where the Company's • experience is not sufficient Rates may vary by plan, age at issue, method of premium payment and policy duration • Assumptions for premium cessation occurring prior to termination of the policy required for universal life contracts	• For individual life insurance products for which fewer terminations would be financially adverse to the Company, net income would decrease $81 million if the termination rate assumption were reduced by 10% starting in policy year six (5% for participating policies and policies with adjustable • premiums) For products for which more terminations would be financially adverse to the Company, net income would decrease $74 million 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	• Mainly based on 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	• A 10% increase in maintenance unit expenses Company-wide would result in a decrease in net income of $263 million

Fair value of investments

As described in Note 1 to SLF Inc.'s 2006 Consolidated Financial Statements, stocks, including certain other equity type investments and real estate are initially recorded at cost, and the carrying value is adjusted towards fair value at 5% and 3%, respectively, of the difference between fair value and carrying value per quarter.

The fair value of the majority of stocks is determined based on quoted market prices. For other equity holdings for which quoted market prices are not available, discounted cash flows and other valuation techniques are used to determine the fair market value. For real estate, fair market values are determined by reference to sales of comparable properties in the marketplace and the net present value of the expected future cash flows. Where valuation is not based on quoted market prices, management is required to make judgments and assumptions, which are subject to changes in economic and business conditions. The use of different methodologies and assumptions may have a material effect on the estimate of fair market values**.**

As at December 31, 2006, the market value of stocks and real estate comprised approximately 9% of the market value of total invested assets.

Allowance for investment losses

The carrying value of invested assets reflects allowances for losses, the calculation of which is based on estimates of net realizable value of the assets. The use of different methodologies and assumptions may have a material effect on the estimates of net realizable value**.**

The carrying value of invested assets is adjusted by allowances for losses, which are established when an asset is classified as impaired. Management considers various factors to identify invested assets of potential impairment concern. In addition to the Company's ability and intent to hold the invested assets to maturity or until a recovery in value, consideration is given to general economic and business conditions, industry trends, specific developments with regard to security issuers, and available market values.

As at December 31, 2006, allowances for losses were $96 million, representing 48% of gross impaired assets. This represents a decrease of 31% from the prior year's allowances of $140 million, reflecting the Company's high quality of assets.

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, 2006, the Company's total impaired assets, net of allowances of $96 million, amounted to $102 million. The corresponding market value of these impaired assets was approximately $122 million as at December 31, 2006.

Goodwill and other intangibles

The fair value of intangible assets is determined using various valuation models which require management to make certain judgments and assumptions that could affect the fair value estimates and resulting impairment write-downs. As at December 31, 2006, the fair values of the appropriate operating business segments, including any associated subsidiary segments as required, and the fair values of the indefinite-life intangible assets were well in excess of their carrying values.

Goodwill represents the excess of the cost of businesses acquired over the fair value of the net identifiable tangible and intangible assets and is not amortized. Rather, it is assessed for impairment annually by comparing the carrying values of the appropriate business segments, including any associated subsidiary segments, as required, to their respective fair values. If any potential impairment is identified, it is quantified by comparing the carrying value of the respective goodwill to its fair value.

The Company had a carrying value of $6.0 billion in goodwill as at December 31, 2006, consisting primarily of $3.7 billion arising from the 2002 Clarica acquisition, $1.5 billion arising from the acquisition of Keyport Life Insurance Company in the United States in 2001, and $511 million arising from the acquisition of CMG Asia in Hong Kong in 2005. An additional $346 million of goodwill related to the Company's equity holdings in CI Financial and Birla Sun Life is included in Other Invested Assets.

Identifiable intangible assets consist of finite-life and indefinite-life intangible assets. Finite-life intangibles are amortized, while indefinite-life intangibles are assessed for impairment annually by comparing their carrying values to their fair values. If the carrying values of the indefinite-life intangibles exceed their fair values, these assets are considered impaired and a charge for impairment is recognized.

As at December 31, 2006, the Company's finite-life intangible assets had a carrying value of $629 million, primarily reflecting the value of certain distribution channels and asset administration contracts acquired as part of the Clarica Life Insurance Company and IFMG acquisitions. The Company's indefinite-life intangible assets had a carrying value of $907 million, reflecting fund management contracts and state licenses.

Income taxes

Sun Life Financial's provision for income taxes is calculated based on the expected tax treatment of a particular period. The determination of the required provision for current and future income taxes requires the Company to interpret tax legislation in the jurisdictions in which it operates and to make assumptions about the expected timing of realization of future tax assets and liabilities. To the extent that the Company's interpretations differ from those of tax authorities or the timing of realization is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience. The amount of any increases or decreases cannot be reasonably estimated.

Accounting policies

Changes in accounting policies in 2006

In 2006, SLF Inc. adopted new accounting standards and policies that are detailed in Note 2 to SLF Inc.'s 2006 Consolidated Financial Statements. The changes are not considered material to the determination of the Company's financial position or results.

Implicit variable interests

On January 1, 2006 the Company adopted the recommendations of the Emerging Issues Committee (EIC) 157, Implicit Variable Interests, which clarify that the interests in variable interest entities (VIEs) do not have to be explicit and may be inferred from relevant facts and circumstances. Such implicit variable interest must be evaluated in accordance with Accounting Guideline 15, Variable Interest Entities to determine if consolidation is appropriate.

Stock-based compensation

In the fourth quarter of 2006, the Company adopted, EIC162, and Stock-based Compensation for Employees Eligible to Retire before the Vesting Date. EIC162 requires that compensation cost for a stock option award attributable to an employee who is eligible to retire at the grant date be fully recognized on the grant date; and compensation costs attributable to stock-based compensation awards granted to employees who will become eligible to retire during the vesting period be recognized over the period from the grant date to the date the employee becomes eligible to retire. This change in accounting policy did not have a material impact on the SLF Inc. 2006 Consolidated Financial Statements.

Future adoption

Financial instruments, hedges and comprehensive income overview

On January 1, 2007, the Company adopted CICA Handbook Section 3855, Financial Instruments — Recognition and Measurement; CICA Handbook Section 3865, Hedges; CICA Handbook Section 1530, Comprehensive Income; and the amendments to CICA handbook sections and accounting guidelines resulting from the issuance of these sections. CICA Handbook Section 4211, Life Insurance Enterprises — Specific Items, replaces CICA Handbook Section 4210 in 2007. The accounting requirements for life insurance portfolio investments in Handbook Section 4211 have only been applied to investments in real estate and are significantly unchanged from Section 4210. Other financial assets previously included as portfolio investments have been required to follow the accounting requirements in the new Handbook Sections 3855, 3865 and 1530. Recognition, derecognition and measurement policies followed in prior years' financial statements are not reversed, and therefore, prior period financial statements will not be not restated. Further details on the specific accounting requirements of these new and revised handbook sections are included in Note 2 to SLF Inc.'s 2006 Consolidated Financial Statements.

On January 1, 2007, deferred realized gains and losses on sales of financial assets previously accounted for as life insurance portfolio investments, including gains and losses arising from sales of bonds, stocks, mortgages and derivatives, were recorded to retained earnings. Realized gains and losses on the sales of these assets will be reported in investment income in 2007. Corporate loans with a carrying value of $4.9 billion that were previously included with bonds on the consolidated balance sheet were classified as loans and have been reported with mortgages because they do not meet the definition of a debt security. These loans, as well as mortgage loans, will continue to be accounted for at amortized cost using the effective interest rate method in 2007. Investments in mortgages and corporate loans support both actuarial liabilities and non-life insurance business.

Accumulated Other Comprehensive Income (OCI) and comprehensive income will be included in the March 31, 2007 interim Consolidated Financial Statements. The Company will also reclassify the December 31, 2006 currency translation account balance of $(1.3) billion, currently included as a separate component of equity to accumulated OCI in the consolidated statement of equity.

The expected impact on the consolidated financial statements due to the accounting changes for investments supporting actuarial liabilities and for investments not supporting actuarial liabilities is described in the following section.

Business impact of financial instruments, hedges and comprehensive income

On January 1, 2007, the Company designated bonds, stocks and other invested assets supporting actuarial liabilities with a carrying value of $58.6 billion and fair value of $62.0 billion as held-for-trading. Derivatives supporting actuarial liabilities that are not classified as hedges for accounting purposes and with a fair value of $843 million were recorded on the balance sheet. These instruments were recorded at fair value on January 1, 2007, with the difference between the fair value and carrying value of these instruments, net of the related tax expense, recorded to opening retained earnings. These instruments will be recorded at fair value at each balance sheet date with changes in fair value recorded to net income. Deferred net realized gains of $3.3 billion relating to instruments supporting actuarial liabilities, excluding real estate, net of the related tax expense, were recorded in retained earnings on January 1, 2007. Future realized gains will be recorded in net income. The actuarial liabilities are supported, in part, by assets that are designated as held-for-trading and certain non-hedging derivatives. Because the value of the actuarial liabilities is determined by reference to the assets supporting those liabilities, changes in the actuarial liabilities will offset a significant portion of the future changes in fair value of those assets recorded to income and the amount recorded to retained earnings on transition. Since deferred net realized gains are generally taken into account in establishing the actuarial liabilities, most of the deferred net realized gains and losses recorded in retained earnings will be offset by changes in actuarial liabilities also recorded in retained earnings on January 1, 2007.

The Company also designated bonds and stocks with a carrying value and a fair value of $209 million and $207 million, respectively, as available-for-sale. These assets are supporting claims stabilization funds and were designated as such in order to match the measurement of these liabilities. Other invested assets with a carrying value of $178 million were designated as available-for-sale. These invested assets represent investments in limited partnerships and will be recorded at cost.

On January 1, 2007, the Company designated bonds and stocks not supporting actuarial liabilities with a carrying value of $10.5 billion and a fair value of $10.9 billion as available-for-sale. These assets were recorded on the balance sheet at fair value on January 1, 2007, with the difference between the fair value and carrying value of these assets, net of the related tax expense, recorded to opening OCI as of January 1, 2007. These assets will be recorded at fair value at each balance sheet date with changes in fair value recorded to OCI. Because future changes in fair value of these assets will be recorded to OCI, these assets will only impact net income when they are sold or other than temporarily impaired, and the gain or loss and the related tax expense, recorded in accumulated OCI, is reclassified to net income.

The Company also designated other invested assets with a carrying value of $574 million as available-for-sale. These assets are investments in segregated and mutual funds, which will be recorded at fair value, and investments in limited partnerships, which will be recorded at cost.

The Company also designated bonds and other invested assets not supporting actuarial liabilities with a carrying value of $187 million and a fair value of $185 million as held-for-trading. These assets are primarily investments held by non-insurance subsidiaries of the Company. Derivatives not supporting actuarial liabilities with a fair value of $279 million were recorded on the balance sheet. These instruments were recorded on the balance sheet at fair value on January 1, 2007, with the difference between the fair value and carrying value of these instruments, net of the related tax expense, recorded in opening retained earnings. These assets will be recorded at fair value at each balance sheet date with changes in fair value recorded in net income. For hedging derivatives, adjustments will also be recorded in opening OCI for cash flow and net investment hedges and to retained earnings for fair value hedges. Deferred net realized gains of $580 million related to assets not supporting actuarial liabilities, excluding real estate, net of the related tax expense were recorded in retained earnings on January 1, 2007. Future changes in fair value of assets not supporting liabilities that are designated as held-for-trading and non-hedging derivatives not supporting actuarial liabilities will impact net income in 2007.

The Canadian government has recently announced its intention to align the current Canadian tax rules with the new accounting standards. At the time of finalizing SLF Inc.'s 2006 Consolidated Financial Statements, detailed legislative guidance on implementation of the proposed changes has not been released. Accordingly, the impact of these proposed changes is not yet determinable.

Determining the variability to be considered in applying the variable interest entity (VIE) standards
On January 1, 2007, the Company adopted EIC 163, which provides additional clarification on how to analyze and consolidate VIEs. EIC 163 is effective for financial statements issued for periods beginning on or after January 1, 2007. The Company does not expect these amendments to have a material impact on the consolidated financial statements.

Risk management

Introduction
The Company's enterprise-wide risk management framework includes policies, risk tolerance limits and worldwide practices for risk management. It provides oversight for the risk management activities within the Company's business segments, ensuring discipline and consistency are applied to the practice of risk management.

Risk framework

Objectives
The risk management program is designed to:

(i) avoid risks that could materially adversely affect the value or reputation of the Company

(ii) contribute to sustainable earnings

(iii) identify risks that the Company can manage in order to increase returns

(iv) provide transparency of the Company's risks through internal and external reporting

Risk philosophy
The Company's business includes accepting risks for appropriate return and taking on those risks that meet its objectives. The Company's risk management program is aligned with its vision and strategy and embeds risk management within the business management practices of the business groups.

Risk culture
The Company's culture supports an effective risk management program. The elements of the risk culture include:

(i) acting with integrity

(ii) understanding the impact of risk on customers

(iii) embedding risk management into the business

(iv) promoting full and transparent communications

(v) collaboration

(vi) aligning of objectives and incentives

Accountabilities
Accountability provides clear lines of responsibility and authority for risk acceptance and risk taking. The Risk Review Committee of SLF Inc.'s Board of Directors, composed of independent directors, has oversight responsibility for enterprise-wide risk management and ensures that management has appropriate and effective policies, operating guidelines and procedures in place to manage risk. Management is responsible for managing risks and for reporting on key risk issues to the committee on a regular basis.

Key risk processes
The Company has implemented a formal risk management program in each business segment. This 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 this reporting are used to develop an annual enterprise-wide view of the most significant risks, which is reported to the Risk Review Committee.

Risk identification
The Company has a formal risk identification program whereby each business group identifies the current key risks that may impact its 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. The Company then identifies the key risks that may materially impact the organization as a whole. These risks are monitored by senior management and reported to the Risk Review Committee on an annual basis. Additional information on these risks is available in SLF Inc.'s 2006 AIF under the heading Risk factors.

Risk policies

The Company has enterprise-wide consolidated risk management policies which provide a consistent approach to measurement, mitigation and control, and monitoring of risk exposures.

Risk measurement

Market risk tolerance and Earnings-at-Risk

The Company has established market risk tolerance limits that set out the maximum target income sensitivity of its business groups to changes in interest rates and the equity 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.

The Company has also developed an Earnings-at-Risk measurement model, which analyzes capital market risks. The Earnings-at-Risk model also projects a distribution of possible deviations of earnings to further assist in risk management activities.

Sensitivity of earnings

The 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.

The amounts in the table are calculated under the 2006 accounting basis and do not reflect the implementation of the new Canadian accounting standards for financial instruments on January 1, 2007, as outlined on 36 of this MD&A under the heading "Accounting policies". The effect on the sensitivities is not expected to be material.

Increase (Decrease) in Earnings ($ millions)	2006 Accounting Basis
Interest Rate Sensitivity (1)21	
1% Increase	64
1% Decrease	(167)
Equity Market Sensitivity (2)	
10% Increase	130
10% Decrease	(140)

(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 Categories

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

Risk category	How risk is managed
Market risk – the uncertainty in the valuation of assets and the cost of embedded options and guarantees arising from changes in equity markets and/or interest rates	• The Company's insurance liabilities are segmented according to major product type, with investment guidelines established for each segment Exposure to capital markets is monitored and managed against • established risk tolerance limits • Individual stock holdings are diversified by industry type and corporate entity • Real estate holdings are diversified by location and property type • Effects of large and sustained adverse market movement are monitored through Dynamic Capital Adequacy Testing and other stress-testing techniques • Considerations are given to the use of derivatives and the Company's policies regarding liquidity management and foreign exchange risks (see pages 44 to 45 in this MD&A under the heading Financial position and liquidity)
Interest rate risk the risk of asset liability mismatch resulting from interest rate volatility	• Matching policy established for each portfolio of assets and associated liabilities to keep potential losses within acceptable limits "Key rate duration" technique employed for certain interest-sensitive • businesses (e.g., individual and group annuities) to examine duration gaps of assets, liabilities and off-balance sheet instruments at discrete points on the yield curve and to manage these gaps within specified tolerance limits
Credit risk – the uncertainty surrounding the likelihood of default or credit downgrade	• Credit risks associated with fixed income investments are managed by major business groups and the Company in aggregate using: o Detailed credit and underwriting policies o Specific diversification requirements o Comprehensive due diligence and ongoing credit analysis o Aggregate counterparty exposure limits o Monitoring against pre-established limits • Provisions for impaired assets are charged against the carrying value of the asset with additional allowances provided for in actuarial liabilities
Reinsurance ceded risk – the counterparty risk relating to externally reinsuring exposures	• Policy established to limit and monitor the level of reinsurance ceded to any single reinsurer or group of reinsurers.
Product design and pricing risk — 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, changes in policyholder behaviour, and taxes	• Annual compliance assessment is performed by all business units against standards and guidelines for product design and pricing methods, pricing assumptions, profit margin objectives, required scenario analysis, documentation, internal peer review and pricing approval processes • Internal audit of business unit pricing processes is performed on a rotating basis

Risk category	How risk is managed
Mortality and morbidity risk – the risk of incurring higher than anticipated mortality and morbidity claim losses on any one policy or group of policies	• Detailed uniform underwriting procedures have been established to determine the insurability of applicants and to manage exposure to large claims • Underwriting requirements are regularly scrutinized against industry guidelines • Group insurance policies are underwritten prior to initial issue and renewals, driven by risk selection, plan design and rating techniques • Risk policies approved by the Board of Directors include limits on the maximum amount of insurance that may be issued under one policy and the maximum amount that may be retained, varying by geographical region • Amounts in excess of limits are reinsured
Legal, regulatory and market conduct risk management e the risk associated with failure to comply with laws or to conduct business consistent with changing regulatory or public expectations	• A strong compliance culture is promoted by setting the appropriate tone at the top with respect to compliance with laws and regulations Enterprise-wide compliance policies and framework established with • annual self-assessment by all business units Annual enterprise-wide attestation by all employees regarding • compliance with Code of Business Conduct • Key compliance risks are monitored at the corporate and business group levels
Operational risk – the uncertainty arising from internal events caused by failures of people, process and technology as well as external events	• Enterprise-wide and business-specific policies and guidelines established • Comprehensive insurance program, including appropriate levels of self-insurance, is maintained to provide protection against potential losses Environmental risk management program is maintained to help protect investment assets (primarily real estate, mortgage and structured • finance portfolios) from losses due to environmental issues and to help ensure compliance with applicable laws

Controls and procedures

Disclosure controls and procedures

The Company has established disclosure controls and procedures that are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and the Executive Vice President and Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined in Multilateral Instrument 52-109 issued by the Canadian Securities Administrators and Rule 13a -15 under the United States Securities and Exchange Act of 1934, as of December 31, 2006, was carried out under the supervision of and with the participation of the Company's management, including the CEO and the CFO. Based on that evaluation, the CEO and the CFO concluded that the design and operation of these disclosure controls and procedures were effective as of December 31, 2006.

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of its financial statements in accordance with generally accepted accounting principles.

Management assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2006, and based on that assessment concluded that internal control over financial reporting was effective. See Management's Report on Internal Control over Financial Reporting and the Report of the Independent Registered Chartered Accountants with respect to management's assessment of internal control over financial reporting in Sun Life Financial Inc.'s 2006 Consolidated Financial Statements.

During the year, the Company has continued to review its controls in various actuarial systems, and made corrections to the processes, data and computations where necessary. The impact of these changes was not material to the financial statements of the Company. No changes were made in the Company's internal control over financial reporting during the year ended December 31, 2006, that have materially affected or are reasonably likely to materially affect its internal control over financial reporting.

Investments

The Company strives to ensure that all general fund investments are properly aligned with business objectives, policyholder obligations are met, and adequate liquidity is maintained at all times. The Risk Review Committee approves policies that contain prudent standards and procedures for the investment of the Company's general fund assets. These policies include requirements, restrictions and limitations for interest rate, credit, equity market, real estate market, liquidity, concentration, and currency and derivative risks. Compliance with these policies is monitored on a regular basis and reported annually to the Risk Review Committee.

Investment profile

The majority of the Company's general funds are invested in medium to long-term fixed income instruments such as bonds and mortgages. The Company's portfolio composition is conservative, with 86% of the general funds in cash and fixed income investments as at December 31, 2006. While real estate and common stock comprised 3% and 5%, respectively, of the general funds portfolio, the majority of these assets, 68% and 69%, respectively, are related to the participating policyholders' account, and the performance of these investments is largely passed on to policyholders over time.

Investments

($ millions)	**2006**		2005 (1)		2004 (1)	
	Carrying value	**% of total**	Carrying value	% of total	Carrying value	% of total
Bonds	**69,230**	**65**	66,154	67	64,496	67
Mortgages	**15,993**	**15**	14,561	15	13,862	14
Stocks	**4,899**	**5**	3,856	4	3,463	4
Real estate	**3,825**	**3**	3,241	3	3,148	3
Cash and equivalent investments	**6,239**	**6**	5,091	5	5,958	6
Policy loans and other invested assets	**6,013**	**6**	5,689	6	5,984	6
Total carrying value	**106,199**	**100**	98,592	100	96,911	100
Total market value	**112,888**		105,358		102,792	

(1) Certain comparative figures have been reclassified to conform with the presentation adopted in 2006.

The Company had total consolidated general fund invested assets of $106.2 billion as at December 31, 2006, compared to $98.6 billion at December 31, 2005. The increase was primarily due to the impact of business growth during the year. The weakening of the Canadian dollar against foreign currencies at the end of 2006 increased the value of the assets by $1.3 billion.

The market value of the Company's invested assets was $112.9 billion at December 31, 2006, up $7.5 billion from December 31, 2005. The increase was primarily due to organic business growth and the favourable impact of changes in capital market levels on the valuation of bond and stock holdings.

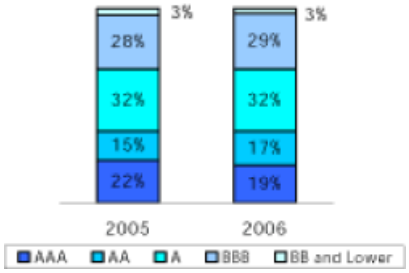
Additional details on the Company's investments are provided in Note 6 to SLF Inc.'s 2006 Consolidated Financial Statements.

Bonds

The Company's bond portfolio is actively managed through a regular program of purchases and sales aimed at optimizing yield , quality and liquidity, while ensuring that the asset portfolio remains diversified and matched to actuarial liabilities by duration. As at December 31, 2006, the Company held $69.2 billion of bonds, which constituted 65% of the Company's overall investment portfolio. Bonds rated "A" or higher represented 68%, and bonds rated "BBB" or higher represented 97% of the total bond portfolio at December 31, 2006.

As at December 31, 2006, the Company held $17.1 billion of nonpublic bonds, which constituted 25% of the Company's overall bond portfolio. Corporate bonds, including corporate loans classified as bonds, represented 70% of the total carrying value of the bond holdings at December 31, 2006, compared to the 68% at December 31, 2005. The increase reflects the Company's ongoing investment management practices whereby the mix of investment holdings is realigned periodically to reflect the ongoing evolution of its business activities.

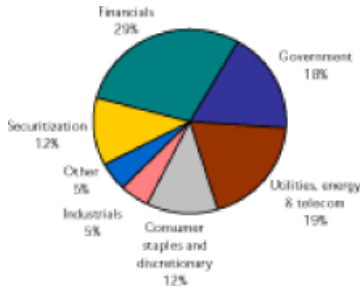
Bonds by investment grade



Mortgages

The Company's mortgage portfolio consists of almost entirely first mortgages. While the Company generally requires a maximum loan to value ratio of 75%, it may invest in mortgages with a higher loan to value ratio in Canada if the mortgage is insured**.** As at December 31, 2006, the mix of the Company's mortgage portfolio was 81% commercial and 19% residential. Approximately 37% of mortgage loans mature by December 31, 2011. As part of its ongoing investment activities, the Company seeks to renew a significant portion of its mortgages providing that they continue to meet the Company's investment criteria.

Bonds by sector



Stocks

The Company's equity portfolio is diversified by country. As at December 31, 2006, $1.8 billion, or 36%, of the Company's equity portfolio consisted of Canadian issuers; $1.6 billion, or 33%, of U.S. issuers; $1.3 billion, or 26%, of U.K. issuers; and $262 million, or 5% of issuers from other jurisdictions. Excluding the Company's equity interest in CI Financial, no single issuer exceeded 2% of the portfolio at December 31, 2006.

Real estate

Commercial office properties are the major component of the Company's real estate portfolio, representing approximately 86% of real estate investments at December 31, 2006. Real estate investments are diversified by country, with 62% of the portfolio located in Canada, 29% in the United States and 9% in the United Kingdom at December 31, 2006.

Impaired assets

Net impaired assets, net of allowances amounted to $102 million at December 31, 2006, $79 million less than the December 31, 2005 level, as asset quality remained strong. Impaired assets were primarily bonds in the U.S. utilities and transportation sectors. The net impaired ratio, defined as net impaired assets to total invested assets, was 10 basis points at December 31, 2006, an improvement of 8 basis points from the December 31, 2005 level.

In addition to allowances reflected in the carrying value of invested assets, the Company had $2.6 billion for possible future asset defaults included in its actuarial liabilities at December 31, 2006, compared with $2.4 billion in 2005.

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

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 principles 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 5% and 3%, respectively, of the unamortized balance.

The Company had $4.2 billion in deferred net realized gains as at December 31, 2006, of which $3.6 billion represented net gains on invested assets backing actuarial liabilities, and the balance represented net gains on invested assets backing capital. Gains on bonds and stocks collectively represented 80% of total deferred net realized gains as at December 31, 2006.

Net unrealized gains

Net unrealized gains represent the difference between market value and carrying value of investments that 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 $6.7 billion in net unrealized gains as at December 31, 2006, compared to $6.8 billion as at December 31, 2005. A significant portion of the net unrealized gains relates to invested assets backing actuarial liabilities. Additional information is provided in Note 6 to SLF Inc.'s 2006 Consolidated Financial Statements.

Financial position and liquidity

The Company's asset-liability management allows it to maintain its strong financial position by ensuring that sufficient liquid assets are available to cover its potential funding requirements. The Company invests in various types of assets with a view to matching them with its liabilities of various durations.

Principal sources of funds

The Company's primary source of funds is cash provided by operating activities, including premiums, investment management fees and net investment income. These funds are used primarily to pay policy benefits, dividends to policyholders, claims, commissions, operating expenses, interest expenses and shareholder dividends. Cash flows generated from operating activities are generally invested to support future payment requirements, including the payment of dividends to shareholders. The Company also raises funds from time to time, through borrowing and issuing of securities, to finance growth, acquisitions or other needs.

At December 31, 2006, the Company maintained cash, cash equivalents and short-term securities totalling $6.2 billion, of which 19% were held in relation to certain derivative strategies and bond repurchase agreements. The corresponding percentage was 38% at the end of 2005. In addition to providing for near-term funding commitments, cash, cash equivalents and short-term securities include amounts which support short-term liabilities.

Net cash, cash equivalents and short-term securities increased by $1.1 billion in 2006 from higher net cash provided by operating activities. Cash flows generated by operating activities increased by $1.7 billion mainly as a result of the inflow from the additional sale of US$900 million in MTNs this year and other business growth. Net cash used in investing activities decreased by $1.3 billion from a year ago mainly related to the CMG Asia acquisition in the fourth quarter of 2005 and the impact from the timing of outstanding investment transactions. Financing activities produced an increased positive cash impact of $66 million during 2006 compared to 2005. This year's proceeds from the issuances of $1.0 billion of fixed/floating debentures and $550 million of preferred shares were partially offset by the $600 million of fixed/floating debentures and $725 million in preferred shares issued in 2005. Dividends paid to common shareholders in 2006 were $183 million higher than the 2005 amount paid to common shareholders.

Cash flow

($ millions)	**2006**	2005 (1)	2004 (1)
Net cash provided by operating activities	**4,469**	2,777	2,990
Net cash provided by (used in) financing activities	**356**	290	(1,102)
Net cash provided by (used in) investing activities	**(2,647)**	(3,974)	(1,225)
Changes due to fluctuations in exchange rates	**18**	(101)	(90)
Increase (decrease) in cash and cash equivalents	**2,196**	(1,008)	573
Cash and cash equivalents, beginning of period	**2,740**	3,748	3,175
Cash and cash equivalents, end of period	**4,936**	2,740	3,748
Short-term securities, end of period	**1,303**	2,351	2,210
Cash, cash equivalents and short-term securities, end of period	**6,239**	5,091	5,958

(1) Certain comparative figures have been reclassified to conform with the presentation adopted in 2006.

Liquidity

The Company generally maintains a conservative liquidity position that exceeds all the liabilities payable on demand. To strengthen its liquidity further, the Company actively manages and monitors its:

- capital levels
- asset levels
- matching position
- diversification and credit quality of its investments
- cash forecasts and actual amounts against established targets

In addition, the Company maintains standby credit facilities with a variety of banks. The agreements relating to the Company's debt, letters of credit and lines of credit contain typical covenants regarding solvency, credit ratings and other such matters.

The Company is subject to various regulations in the jurisdictions in which it operates. The ability of SLF Inc.'s subsidiaries to pay dividends and transfer funds is regulated in certain jurisdictions and may require local regulatory approvals and the satisfaction of specific conditions in certain circumstances. Through effective cash management and capital planning, SLF Inc. ensures that its subsidiaries, as a whole and on a stand-alone basis, are properly funded and maintain adequate liquidity to meet obligations, both individually and in aggregate.

Based on the Company's historical 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

The Company's capital base consists mainly of common shareholders' equity and retained earnings. Other sources of capital include the Company's preferred shareholders' equity, and subordinated debt issued by Sun Life Assurance and Sun Canada Financial Co. For Canadian regulatory purposes, the Company's capital also includes Sun Life ExchangEable Capital Securities (SLEECS) issued by Sun Life Capital Trust (SLCT) and Cumulative Capital Securities (CCS) issued by a non consolidated variable interest entity of SLF Inc. These entities were deconsolidated in 2005 as a result of certain accounting policy changes. Notes 13 and 15 to SLF Inc.'s Consolidated Financial Statements include additional details on the Company's capital.

In 2006, capital rose to $20.5 billion, an increase of $1.6 billion over the prior year, primarily due to strong organic capital generation, the issuance of $59 million of common shares on the exercise of stock options and the issuance of $538 million of preferred shares, net of expenses. These increases were partially offset by shares repurchased and cancelled, which reduced common shareholders' equity by $575 million.

The table below summarizes changes in the Company's capital position over the past three years:

Capital

($ millions)	2006	2005	2004
Balance, beginning of year	18,851	17,899	17,789
Common shareholders' net income	2,089	1,843	1,680
Common share dividends	(663)	(581)	(515)
Issuance (buyback) of common shares (net of expenses)	(514)	(466)	(330)
Stock option compensation	18	17	11
Effect of changes in exchange rates	163	(402)	(421)
Total change in common shareholders' equity	1,093	411	425
Subordinated debt redemption	—	—	(253)
Exchange rate changes — Subordinated notes & CCS	—	(27)	(69)
Issuance of preferred shares (net of redemptions and expenses)	538	562	—
Accounting policy & other changes	7	6	7
Balance, end of year	20,489	18,851	17,899

In 2006, the Company took advantage of historically low long-term interest rates and a favourable market environment to issue two additional series of non-cumulative perpetual preferred shares. In January 2006, the Company issued 10 million Class A Preferred Shares Series 3 for an aggregate amount of $250 million that pay quarterly cash dividends at a per annum rate of 4.45%. In October 2006, the Company issued 12 million Class A Preferred Shares Series 4 for an aggregate amount of $300 million that pay quarterly cash dividends at a per annum rate of 4.45%.

On February 2, 2007, SLF Inc. issued $250 million of Class A non-cumulative Preferred Shares Series 5, at $25 per share, paying non-cumulative quarterly dividends at a per annum rate of 4.50%.

SLF Inc. repurchases common shares to return capital to shareholders in an effective manner. Throughout 2006, SLF Inc. repurchased and subsequently cancelled 12.4 million common shares at a cost of $575 million.

Number of common shares

(in millions)	2006	2005	2004
Balance, beginning of year	582.0	592.0	600.0
Stock options exercised	2.2	3.1	2.4
Shares repurchased	(12.4)	(13.1)	(10.4)
Balance, end of year	571.8	582.0	592.0

Number of stock options outstanding

(in millions)			
Balance, beginning of year	10.0	12.4	15.2
Options issued	1.5	1.3	0.2
Options exercised or cancelled	(2.4)	(3.7)	(3.0)
Balance, end of year	9.1	10.0	12.4

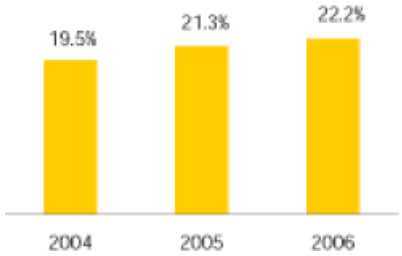
The Company also grants stock options to certain employees and directors, which may be exercised at the closing price of the common shares on the trading day preceding the grant date. As at January 31, 2007, 9.1 million options to acquire SLF Inc. shares and 571.8 million common shares of SLF Inc. were outstanding.

In March 2006, the Company issued $700 million of Series B Senior Unsecured Fixed/Floating Debentures, yielding 4.95% annually, due in 2036. In July 2006, the Company issued $300 million of Series C Senior Unsecured Fixed/Floating Debentures, yielding 5.0% annually, due in 2031.

At December 31, 2006, the Company's long-term debt consisted of: (i) US$600 million of cumulative capital securities, with no scheduled maturity date, (ii) 1.2 billion of SLEECS with maturity dates between 2031 and 2052, (iii)$1.6 billion of senior unsecured debentures with maturity dates between 2031 and 2036, (iv) $1.2 billion in subordinated debentures with maturity dates between 2015 and 2028, and (v) US$177 million in subordinated notes with maturity dates between 2007 and 2015. The maturity dates of the Company's long-term debt are well distributed over the medium-to long-term horizon to maximize the Company's financial flexibility and minimize refinancing requirements within a given year.

The Company strives to achieve an optimal capital structure by balancing the use of debt and equity financing. The debt-to-capital ratio for SLF Inc. which includes the SLEECS and preferred shares issued by SLF Inc. as part of debt for the purpose of this calculation, increased by less than 1% over the past year to 22.2% as at December 31, 2006.

Total Debt-to-Capital Ratio(1)



(1)Total Debt includes SLEECS and preferred shares.

Shareholders' dividends

SLF Inc. increased its quarterly common shareholders' dividend to $0.275 per share in the first quarter of 2006 and to $0.30 per share in the third quarter of 2006. Total common shareholder dividends paid in 2006 were $1.15 per share, up 16% from $0.99 in 2005.

Dividends per common share ($)



Dividend payout ratio(1)



(1)Represents the ratio of common shareholders' dividends to operating earnings.

On February 8, 2007, the Board of Directors approved an 7% increase in quarterly dividends on SLF Inc.'s common shares to $0.32 per share. SLF 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. The current dividend payout target ratio is 30% to 40%.

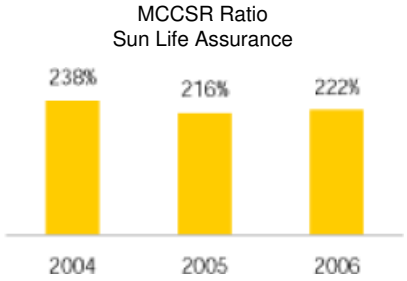
Capital adequacy

SLF Inc. has a policy designed to ensure that adequate capital is maintained to provide the flexibility necessary to take advantage of growth opportunities and to support the risk associated with its subsidiaries' businesses. The approach to managing capital has been developed to ensure that an appropriate balance is maintained between the internal assessment of capital required and the requirements of regulators and rating agencies. SLF Inc.'s capital base is structured to maximize the level of permanent capital while maintaining a cost efficient structure at the desired leverage ratio. Capital is managed on a consolidated basis under principles that consider all the risks associated with the business as well as at the business unit level under the principles appropriate to the jurisdiction in which it operates.

SLF Inc. is subject to the guidelines regarding capital framework for regulated insurance holding companies and nonoperating life insurance companies (collectively, Insurance Holding Companies) issued by OSFI. Under these guidelines, Insurance Holding Companies, such as SLF Inc., and certain of their significant life insurance company subsidiaries are not subject to the Minimum Continuing Capital Surplus Requirements (MCCSR) that apply to Canadian life insurance companies. These guidelines do not establish minimum or targeted capital requirements for Insurance Holding Companies.

As an Insurance Holding Company, SLF Inc. is expected to manage its capital in a manner commensurate with its risk profile and control environment. For purposes of determining required capital under the capital risk metrics, the risk component factors for significant foreign life subsidiaries are not included in the Insurance Holding Company's total capital required. OSFI may intervene and assume control of an Insurance Holding Company or a Canadian life insurance company if it deems the amount of available capital insufficient. Capital requirements may be adjusted by OSFI in the future as experience develops the risk profile of Canadian life insurers changes, or to reflect other risks. SLF Inc. was well above its internal minimum target capital levels at December 31, 2006.

Sun Life Assurance is subject to the MCCSR required capital for a life insurance company in Canada. OSFI generally expects life insurance companies to maintain a minimum MCCSR of 150% or greater, based on the risk profile of the relevant insurance company. Sun Life Assurance's MCCSR ratio as at December 31, 2006 well exceeded the levels that would require any regulatory or corrective action. Additional details concerning the calculation of available capital and MCCSR are included in the 2006 AIF of SLF Inc. under the heading Regulatory matters.



Significant foreign life subsidiaries that are not subject to the MCCSR rules are expected to comply with the capital adequacy requirements imposed in the foreign jurisdictions in which they operate. The Company's principal operating life insurance subsidiary in the United States, Sun Life Assurance Company of Canada (U.S.), qualifies as a significant foreign life subsidiary. Sun Life Assurance Company of Canada (U.S.) is subject to the risk-based capital rules issued by the National Association of Insurance Commissioners (NAIC). The NAIC generally expects insurance companies to maintain at least 200% of minimum risk-based capital. The risk-based capital of Sun Life Assurance Company of Canada (U.S.) was well above the minimum level as at December 31, 2006.

In addition, other foreign operations and foreign subsidiaries of SLF Inc. must comply with local capital or solvency requirements in the jurisdictions in which they operate. The Company endeavours to maintain capital levels well above the minimum local requirements as at December 31, 2006.

Off-balance sheet arrangements

In the normal course of business, the Company is engaged in a variety of financial arrangements. The principal purposes of these arrangements are to:

- earn management fees and additional spread on a matched book of business
- hedge and match the Company's liabilities, and reduce risks associated with currency, interest rate and stock market fluctuations
- replicate permissible investments
- reduce financing costs

While most of these activities are reflected on the Company's balance sheet with respect to assets and liabilities, certain of them are either not recorded or are recorded on the Company's balance sheet in amounts that differ from the full contract or notional amounts. The types of off-balance sheet activities the Company undertakes primarily include:

- asset securitizations
- securities lending
- financial derivatives

Asset securitizations

The Company engages in asset securitization activities primarily to earn origination and/or management fees by leveraging its investment expertise to source and manage assets for the investors. The Company sells mortgage and/or bond assets to a non-consolidated special purpose entity (SPE), which may also purchase investment assets from third parties. The SPE funds the asset purchase by selling securities to investors. As part of the SPE arrangement, the Company may subscribe to a subordinated investment interest in the issued securities.

The table summarizes the Company's asset securitization program. Additional information is available in Note 6 to SLF Inc.'s 2006 Consolidated Financial Statements.

($millions)	**2006**	2005
As at December 31		
Securitized assets under management	**2,434**	2,829
The Company's retained interests	**103**	117
For the year ended December 31		
Cash flow received on retained interests and servicing fees	**18**	33
Proceeds from sale of company assets through securitization including pre-tax gains	**—**	—

The Company is generally retained to manage the assets in the SPE on a fee-for-service basis. All of the asset securitization transactions undertaken by the Company are structured on a non-recourse basis so that the Company has no exposure to the default risks associated with the assets in the SPEs other than through any retained interests held by the Company.

Securities lending

The Company lends securities in its investment portfolio to other institutions to generate additional fee income. The Company conducts its program only with well-established, reputable banking institutions that carry a minimum credit rating of "AA". It is the Company's practice to obtain a guarantee from the lending agent against counterparty default, including collateral deficiency, in securities lending transactions. Additional information on securities lending is available in Note 6 to SLF Inc.'s 2006 Consolidated Financial Statements.

Financial derivatives and risk mitigation

The Company uses derivative instruments to manage risks related to interest rate, equity market and currency fluctuations and in replication strategies to reproduce permissible investments. The Company does not engage in speculative investment in derivatives. The primary uses of derivatives are summarized in the table below.

Products/Application	Use of derivative	Derivative used
U.S. universal life contracts, certain Canadian group annuity contracts containing minimum interest rate guarantees, and U.K. unit-linked pension products with guaranteed annuity rate options	To limit potential financial losses from significant reductions in asset earned rates relative to contract guarantees and manage the equity exposure due to certain regulatory requirements for the U.K. unit- linked pension products	Interest rate options and swaps; short equity forwards
Interest rate exposure in relation to asset-liability management	To manage the sensitivity of the duration gap between assets, liabilities and off- balance sheet instruments to interest rate changes	Interest rate swaps and options
U.S. variable annuities, Canadian segregated funds and reinsurance on variable annuity guarantees offered by other insurance companies	To manage the exposure to product guarantees sensitive to movement in equity market levels	Put options on equity index; futures on equity indices and on interest rates
U.S. fixed index annuities	To manage the exposure to product guarantees related to equity market performance	Futures and options on equity indices and interest rates
U.K. With Profit Fund	To protect the fund from the impact of a significant fall in the U.K. equity market below a predetermined level	Collar option on equity index maturing in 2006 and put option on equity index maturing in 2007
Currency exposure in relation to asset-liability management	To reduce the sensitivity to currency fluctuations by matching the value and cash flows of specific assets denominated in one currency with the value and cash flows of the corresponding liabilities denominated in another currency	Currency swaps and forwards

The Company generally enters into derivative transactions with counterparties with "AA" credit ratings or better. Where a counterparty's rating is downgraded to below this level, the Company has credit support arrangements in place which require additional collateral.

The values of the Company's derivative instruments are summarized in the adjacent table. The use of derivatives is measured in terms of notional amounts, which serve as the basis for calculating payments and are generally not actual amounts that are exchanged.

($ millions)	**2006**	2005
As at December 31		
Net fair value	**1,122**	1,195
Total notional amount	**44,140**	38,364
Credit equivalent amount	**2,361**	2,463
Risk-weighted credit equivalent amount	**55**	53

Total notional amount increased to $44.1 billion at December 31, 2006, from $38.4 billion at the end of 2005, primarily due to the increased use of derivatives to manage equity and currency risks. The net fair value, which represents the unrealized gains, net of unrealized losses, of all derivative financial instruments, slipped to $1.1 billion from $1.2 billion year over year. This primarily reflected changes in market conditions affecting the valuation of the derivative instruments.

As the regulator of the Canadian insurance industry, OSFI provides guidelines to quantify the use of derivatives. The credit equivalent amount, a measure used to approximate the potential credit exposure, is determined as the replacement cost of the derivative contracts having a positive fair value plus an amount representing the potential future credit exposure. The risk-weighted credit equivalent amount is a measure used to determine the amount of capital necessary to support derivative transactions for certain Canadian regulatory purposes. It is determined by weighting the credit equivalent amount according to the nature of the derivative and the creditworthiness of the counterparties.

As at December 31, 2006, the credit equivalent amounts for interest rate contracts, foreign exchange contracts, and equity and other contracts were $364 million, $867 million and $1,130 million, respectively. The corresponding risk-weighted credit equivalent amounts were $8 million, $20.5 million and $26.5 million, respectively.

With the Company adopting the new accounting standards for financial instruments on January 1, 2007, all derivative financial instruments will be reported on the balance sheet at fair value. The derivatives' fair value of $1.1 billion will be recorded on the balance sheet.

Additional details in respect of derivatives are described in Notes 1, 6 and 7 of SLF Inc.'s 2006 Consolidated Financial Statements.

Commitments, guarantees, contingencies and reinsurance matters

In the normal course of business, the Company enters into leasing agreements, outsourcing arrangements and agreements involving indemnities to third parties. The Company is also engaged in arbitration proceedings in the U.S. and U.K. with certain companies that have contracts to provide reinsurance to the Company. Details regarding the Company's commitments, guarantees and contingencies are summarized in Note 20 of SLF Inc.'s 2006 Consolidated Financial Statements.

Contractual obligations

		Payments due by period			
($ millions)	Total	Within 1 year	1-3 years	4-5 years	Over 5 years
Long-term debt	4,947	32	—	—	4,915
Operating leases	458	98	129	90	141
Credit-related arrangements					
Contractual commitments	1,366	1,055	311	—	—
Letters of credit	1,122	1,122	—	—	—
General fund policyholder liabilities(1)	189,402	13,202	15,092	13,223	147,885
Total contractual obligations	197,295	15,509	15,532	13,313	152,941

(1) General fund policyholder liability cash flows include estimates related to the timing and payment of death and disability claims, policy surrenders, policy maturities, annuity payments, minimum guarantees on segregated fund products, policyholder dividends, commissions and premium taxes offset by contractual future premiums and fees on in-force contracts. These estimated cash flows are based on the best estimate assumptions used in the determination of policy liabilities. These amounts are undiscounted and do not reflect recoveries from reinsurance agreements. The actuarial and other policy liability amounts included in the 2006 SLF Inc. Consolidated Financial Statements are based on the present value of the estimated cash flows and are net of reinsured amounts. Due to the use of assumptions, actual cash flows will differ from these estimates.

Outsourcing agreements

The Company enters into long-term outsourcing contracts from time to time to allow the Company to focus on its core business, enhance customer services and reduce operating costs and risks. Its material long-term outsourcing contracts are described below.

In January 2002, the Company signed a contract with a subsidiary of Vertex Data Science Limited, a U.K.-based service provider, to outsource the administration of the Company's closed block of U.K. individual life and pension business until 2009. The value of the main contract is estimated at approximately $285 million over its term. Future contract payments are estimated to be approximately $26 million in 2007 and $28 million for the remaining period of the contract.

In 2002, the Company entered into a seven-year outsourcing contract with IBM Canada Limited (IBM), under which IBM provides a wide range of technology services to the Company. The value of this contract is estimated to be approximately $260 million over its life. The future payments to IBM, based on currently anticipated usage levels, are estimated to be approximately $33 million a year for the remaining term of this contract.

Legal and regulatory proceedings

SLF Inc. and certain of its U.S. subsidiaries are continuing to cooperate with insurance and securities regulators and other government and self-regulatory agencies in the United States in their ongoing investigations and examinations with respect to various issues. Certain of these investigations and examinations may lead to settled administrative actions or enforcement proceedings and civil actions. As previously disclosed, SLF Inc. and MFS have been named as defendants in multiple lawsuits in U.S. courts relating to the matters that led to the settlements between MFS and U.S. regulators in 2004; and MFS continues to defend these actions. In addition, SLF Inc. and its subsidiaries are involved in other legal action, both as a defendant and as a plaintiff. While it is not possible to predict the resolution of these various legal and regulatory proceedings, management believes, based on the information currently available to it, that the ultimate resolution of these matters will not be material to Sun Life Financial's consolidated financial position or results of operations.

Additional information concerning these and related matters is provided in SLF Inc.'s annual Consolidated Financial Statements and the AIF for the year ended December 31, 2006, copies of which are available on the Company's website at www.sunlife.com and at www.sedar.com and www.sec.gov.

Exhibit 3

Annual Information Form

Sun Life Financial Inc.

For the Year Ended December 31, 2006

February 8, 2007

Sun Life Financial

Presentation of information

In this Annual Information Form (AIF), Sun Life Financial Inc. (SLF Inc.) and its consolidated subsidiaries, significant equity investments and joint ventures are collectively referred to as “Sun Life Financial” or the “Company”.

Unless otherwise indicated, all information in this AIF is presented as at and for the year ended December 31, 2006, and amounts are expressed in Canadian dollars. Financial information is presented in accordance with Canadian generally accepted accounting principles (GAAP) and the accounting requirements of the Office of the Superintendent of Financial Institutions, Canada (OSFI).

Documents incorporated by reference

The following documents are incorporated by reference in and form part of this AIF:

(i) SLF Inc.’s Management’s Discussion and Analysis (MD&A) for the year ended December 31, 2006, and

(ii) SLF Inc.’s Consolidated Financial Statements and accompanying notes (Consolidated Financial Statements) for the year ended December 31, 2006.

These documents have been filed with securities regulators in Canada and with the United States Securities and Exchange Commission (SEC) and may be accessed at www.sedar.com and www.sec.gov, respectively.

Forward-looking statements

Certain statements in this AIF, including those relating to the Company’s strategies and other statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates” or similar expressions, are forward-looking statements within the meaning of securities laws. Forward-looking statements include the information concerning possible or assumed future results of operations of the Company. These statements represent the Company’s expectations, estimates and projections regarding future events and are not historical facts. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. The future results and stockholder value of SLF Inc. may differ materially from those expressed in these forward-looking statements due to, among other factors, the matters set out under “Risk factors” in SLF Inc.’s AIF and the factors detailed in its other filings with Canadian and U.S. securities regulators, including its annual MD&A, and annual and interim financial statements, which are available for review at www.sedar.com and www.sec.gov.

Factors that could cause actual results to differ materially from expectations include, but are not limited to, the performance of equity markets; interest rate fluctuations; changes in legislation and regulations including tax laws; regulatory investigations and proceedings or private legal proceedings and class actions relating to the practices in the mutual fund, insurance, annuity and financial product distribution industries; risks relating to product design and pricing; investment losses and defaults; the occurrence of natural or man-made disasters, pandemic diseases and acts of terrorism; risks relating to operations in Asia, including risks relating to joint ventures; failure of computer systems and internet enabled technology; breaches of computer security and privacy; the cost, availability and effectiveness of reinsurance; the inability to maintain strong distribution channels and risks relating to market conduct by intermediaries and agents; dependence on third party relationships including outsourcing arrangements; currency exchange rate fluctuations; the impact of competition; downgrades in financial strength or credit ratings; the ability to successfully complete and integrate acquisitions; the ability to attract and retain employees; and the performance of the Company’s investments and investment portfolios managed for clients such as segregated and mutual funds. The Company does not undertake any obligation to update or revise these forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events, except as required by law.

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Corporate structure

Incorporation

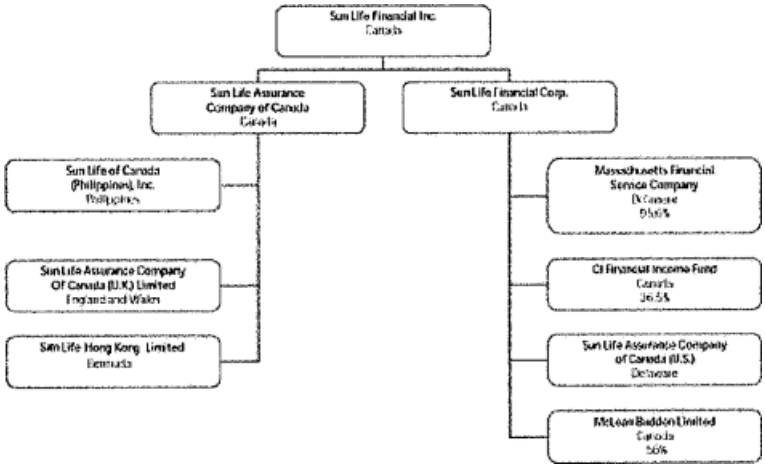
Sun Life Financial Inc. (SLF Inc.) was incorporated under the Insurance Companies Act, Canada (the Insurance Act) on August 5, 1999, for the purpose of becoming the holding company of Sun Life Assurance Company of Canada (Sun Life Assurance) following its demutualization.

Sun Life Assurance was incorporated in 1865 as a stock insurance company and was converted into a mutual insurance company in 1962. On March 22, 2000, Sun Life Assurance implemented a plan of demutualization under which it converted back to a stock company pursuant to Letters Patent of Conversion issued under the Insurance Act. Under its plan of demutualization, Sun Life Assurance became the wholly-owned subsidiary of SLF Inc.

Sun Life Financial's head and registered office is located at 150 King Street West, Toronto, Ontario, M5H 1J9.

Principal subsidiaries and significant equity investments

Sun Life Financial's corporate structure as at December 31, 2006, including SLF Inc.'s principal direct and indirect subsidiaries and significant equity investments, is shown below. Unless otherwise indicated, all companies shown below are 100% owned.



General development of the business

Overview

Sun Life Financial is a leading international financial services organization,offering a diverse range of life and health insurance products and services, savings, investment management, retirement, and pension products and services to both individual and corporate customers. Sun Life Financial manages its operations and reports its financial results in five business segments: Sun Life Financial Canada (SLF Canada), Sun Life Financial United States (SLF U.S.), MFS Investment Management (MFS), Sun Life Financial Asia (SLF Asia), and Corporate. The Corporate segment includes the operations of Sun Life Financial's United Kingdom business unit (SLF U.K.), its active reinsurance business, and Corporate Support operations which include run-off reinsurance and revenue and expenses of a corporate nature not attributable to other segments.

The Company's business model is one of balance. It strives to establish scale and scope in each of the diversified markets in which it chooses to compete. It weighs the higher growth prospects in emerging markets against the relative stability of more mature operations. In a similar way, the Company's protection business serves as a counterbalance to its wealth management business, ensuring that its customers have access to complementary insurance, retirement and savings products that meet their specific needs. The following table shows the Company's products by business segment

Products	SLF Canada	SLF U.S.	MFS	SLF Asia	Corporate
Individual life insurance	n	n		n	n
Individual annuity and savings	n	n	n	n	n
Group life and health	n	n		n	
Group pension and retirement	n	n		n	
Mutual funds	n		n	n	
Asset management	n	n	n	n	
Individual health insurance	n			n	
Reinsurance (life retrocession)					n

A hallmark of the Company's operations is its strong focus on multi-channel distribution. By offering more than one touch point, customers have the option of choosing how – and when – they can purchase products and access services.

Distribution Channels	SLF Canada	SLF U.S.	MFS	SLF Asia
Direct sales agents	n			n
Independent and managing general agents	n	n		n
Financial intermediaries (e.g., brokers)	n	n	n	n
Banks		n		n
Pension and benefit consultants	n	n	n	
Direct sales (including Internet)	n		n	n

Acquisitions, disposals, business combinations and other developments

Sun Life Financial assesses its businesses and corporate strategies on an ongoing basis to ensure that it makes optimal use of its capital and provides maximum shareholder value. The following summary outlines the acquisitions, disposals and business combination activities in the past three years. Additional information is provided in Note 3 to SLF Inc.'s 2006 Consolidated Financial Statements.

Corporate reorganization

On January 4, 2005, the Company completed a reorganization under which most of Sun Life Assurance's asset management businesses in Canada and the United States, including the majority of its U.S. annuities business, were transferred to Sun Life Financial Corp. (SLF Corp.), a subsidiary of SLF Inc. Under this reorganization, Sun Life Assurance transferred its shares of CI Financial Inc., McLean Budden Limited, Massachusetts Financial Services Company and Sun Life Assurance's other U.S. subsidiaries to SLF Corp. After the reorganization, the operations remaining in Sun Life Assurance consisted primarily of the life, health and annuities businesses of the Company's Canadian operations, the majority of the life and health businesses of its United States operations, and all of its operations in the United Kingdom and Asia.

CMG Asia Limited

On October 18, 2005, the Company completed its acquisition of CMG Asia Limited, CMG Asia Trustee Company Limited, CommServe Financial Limited and Financial Solutions Limited, which together formed the Hong Kong individual life insurance, group insurance and group pension and brokerage operations of Commonwealth Bank of Australia. This acquisition enhanced Sun Life Financial's position in the Hong Kong life insurance market and gave it a strong presence in the pension and group insurance markets. As a result of this transaction, the Company now has a more solid platform for use as a base for further expansion in Asia.

Other operations

On August 26, 2005, the Company sold its 31.72% investment in Administradora de Fondos de Pensiones Cuprum S.A., a Chilean pension fund manager, to Empresas Penta S.A.

U.S. group benefits business acquisition

On January 10, 2007, SLF Inc. entered into an agreement to purchase the U.S. group benefits business of Genworth Financial, Inc. (Genworth) for US$650 million. The acquisition will add significant scale and scope to Sun Life Financial's U.S. group business. Genworth's group operations, which primarily offer group life, disability, stop-loss and dental insurance, will strengthen and complement Sun Life Financial's existing product offerings in the U.S. The acquisition will significantly enhance Sun Life Financial's market share across its U.S. group lines of business and positions the Company as the second largest U.S. medical stop-loss provider. In addition, Genworth's extensive distribution network and focus on the small-case employer market will help accelerate Sun Life Financial's group insurance growth strategy in the U.S.

The transaction will be financed with existing capital. It is expected to close in the second quarter of 2007 and is subject to regulatory approval in Canada and the United States.

Business of Sun Life Financial

Wealth and protection industries

The global financial services industry continues to evolve rapidly in response to demographic trends. The graying of the population in developed markets is placing a greater demand on wealth accumulation products for working age employees, income distribution products for employees closer to retirement and wealth transfer vehicles for retirees. The aging of the population is also beginning to strain existing health care systems, as a larger portion of the population is expected to require treatment over a longer timeframe. Demand for products such as long-term care and critical illness insurance is anticipated to grow as consumers turn to products that help ensure direct access to high-quality health care. Lastly, concern about inadequate public pension plans is leading to a dramatic rise in both mutual funds and other financial vehicles that address baby boomers' concerns about the need for adequate resources in retirement.

In the emerging markets of Asia, the rising affluence of consumers is stimulating the demand for a wide variety of financial products, including protection, savings and investment vehicles.

Competition

The markets in which Sun Life Financial engages are highly competitive. Sun Life Financial's competitors include not only insurance companies, but also investment managers, mutual fund companies, banks, financial planners and other financial service providers. Frequently competition is based on pricing, the ability to provide value-added services, and deliver excellence to both distributors and customers.

Increased competition has been a contributing factor to the global trend of consolidation within the financial services industry. Mergers and acquisitions in the Canadian insurance industry have significantly changed the competitive landscape, as the three largest companies serve more than two-thirds of the Canadian insurance market. In the United States, the market is more fragmented, raising the likelihood of consolidation as insurers look to achieve scale to compete effectively.

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 major Canadian banks have significant securities, wealth management and insurance operations. Canadian financial services legislation provides a regulatory framework for further convergence of the banking, insurance and investment industries. At present, there is no clear timetable for the government to announce policy changes relating to bank/bank and bank/insurer mergers and acquisitions.

In the emerging markets of Asia, the regulatory environments are moving towards market liberalization, expanding the opportunities for foreign participants and aligning their regulatory environments more closely with standards prevalent in more mature markets. The insurance market is expected to be particularly dynamic in China and India, where Sun Life Financial has joint venture operations.

Seasonality

Seasonality factors impact certain components of Sun Life Financial's business. Individual insurance sales typically increase during sales contests. In Canada, Individual Wealth and Group sales are typically higher in the first quarter due to the RRSP season. Insurance sales in India are also strong in the first quarter.

Number of employees

The table below outlines the number of full-time equivalent employees (FTEs) across the Company's operations. It does not include employees in joint venture operations.

Country/Business	Number of FTEs
Canada	7,323
United States	4,969
Philippines	625
Hong Kong	560
Ireland	378
Indonesia	268
India	66
United Kingdom	32
Bermuda	28
China	15
Total	14,264

Additional information

Additional information about the Company's business and its operating segments, including an overview of the financial services industry, its products and methods of distribution, competitive environment, risk management policies and investment activities, are described in SLF Inc.'s 2006 MD&A which is incorporated by reference in this AIF and should be read in conjunction with SLF Inc.'s 2006 Consolidated Financial Statements.

Capital structure

General

SLF Inc.'s authorized capital consists of unlimited numbers of common shares (the Common Shares), Class A Shares (the Class A Preferred Shares) and Class B Shares (the Class B Preferred Shares), each without nominal or par value.

The Class A Preferred Shares and Class B Preferred Shares may be issued in series as determined by SLF Inc.'s Board of Directors. The Board is authorized to fix the number, consideration per share, designation, and rights and restrictions attached to each series of shares. The holders of Class A Preferred Shares and Class B Preferred Shares are not entitled to any voting rights except as described below or as otherwise provided by law. Five series of Class A Preferred Shares have been created, designated the Class A Non-Cumulative Preferred Share Series 1, Series 2, Series 3, Series 4 and Series 5. The table outlines the issued share capital of SLF Inc., as at January 31, 2007, including stock exchange listings.

Issued Share Capital

Security	Number of Shares	Exchanges[1]		
		TSX	NYSE	PSE
Common Shares	571,897,513	n	n	n
Class A Preferred Shares				
Series 1	16,000,000	n		
Series 2	13,000,000	n		
Series 3	10,000,000	n		
Series 4	12,000,000	n		
Series 5[2]	10,000,000	n		

1 Toronto Stock Exchange (TSX), New York Stock Exchange (NYSE) and Philippines Stock Exchange (PSE)

2 The Class A Preferred Shares Series 5 were issued on February 2, 2007

Common shares

Each Common Share is entitled to one vote at meetings of the shareholders of SLF Inc., except for meetings at which only holders of another specified class or series of shares are entitled to vote separately as a class or series. Common Shares are entitled to receive dividends if and when declared by the Board of Directors. Dividends must be declared and paid in equal amounts per share on all Common Shares, subject to the rights of holders of the Class A Preferred Shares and Class B Preferred Shares. Holders of Common Shares will participate in any distribution of the net assets of SLF Inc. upon its liquidation, dissolution or winding-up on an equal basis per share, subject to the rights of the holders of the Class A Preferred Shares and Class B Preferred Shares. There are no pre-emptive, redemption, purchase or conversion rights attaching to the Common Shares.

Class A preferred shares

The Class A Preferred Shares of each series rank on parity with the Class A Preferred Shares of each other series with respect to the payment of dividends and the return of capital on the liquidation, dissolution or winding-up of SLF Inc. The Class A Preferred Shares are entitled to preference over the Class B Preferred Shares, the Common Shares and any other shares ranking junior to the Class A Preferred Shares with respect to the payment of dividends and the return of capital. The special rights and restrictions attaching to the Class A Preferred Shares as a class may not be amended without such approval as may then be required by law, subject to a minimum requirement of approval by the affirmative vote of at least two-thirds of the votes cast at a meeting of the holders of Class A Preferred Shares held for that purpose.

Class A Preferred Shares

Series	Quarterly Dividend ($)	Early Redemption Date	Prospectus Date
Series 1	0.296875	March 31, 2010	February 17, 2005
Series 2	0.300000	September 30, 2010	July 8, 2005
Series 3	0.278125	March 31, 2011	January 6, 2006
Series 4	0.278125	December 31, 2011	October 2, 2006
Series 5	0.281250	March 31, 2012	January 25, 2007

The shares in each series of the Class A Preferred Shares Series were issued for $25 per share and holders are entitled to receive non-cumulative quarterly dividends outlined in the preceding table. Subject to regulatory approval, on or after the early redemption date noted, SLF Inc. may redeem these shares in whole or in part at a declining premium. Additional information concerning these preferred shares is contained in the prospectus issued for each issue, which may be accessed at www.sedar.com.

Class B preferred shares

The Class B Preferred Shares of each series rank on a parity with the Class B Preferred Shares of each other series with respect to the payment of dividends and the return of capital on the liquidation, dissolution or winding-up of SLF Inc. The Class B Preferred Shares are entitled to preference over the Common Shares and any other shares ranking junior to the Class B Preferred Shares with respect to the payment of dividends and the return of capital, but are subordinate to the Class A Preferred Shares and any other shares ranking senior to the Class B Preferred Shares with respect to the payment of dividends and return of capital. The special rights and restrictions attaching to the Class B Preferred Shares as a class may not be amended without such approval as may then be required by law, subject to a minimum requirement of approval by the affirmative vote of at least two-thirds of the votes cast at a meeting of the holders of Class B Preferred Shares held for that purpose.

Constraints on shares

The Insurance Act contains restrictions on the purchase or other acquisition, issue, transfer and voting of the shares of a demutualized insurance company or, when a holding company structure is used, its corporate holding body. Information on those restrictions can be found in this AIF under the heading *"Regulatory matters – Canada – Restrictions on ownership"*.

Market for securities

The following tables set out the price range and trading volumes of SLF Inc.'s Common Shares and Class A Preferred Shares on the TSX during 2006:

Common Shares

	Price ($)			
	High	**Low**	**Close**	**Trading Volume (thousands)**
January	48.70	46.13	47.74	20,857
February	50.49	47.28	49.75	28,252
March	50.65	48.76	49.65	23,709
April	50.12	46.51	47.15	21,226
May	47.35	43.78	45.18	32,839
June	46.60	43.10	44.35	24,996
July	46.19	42.81	43.19	20,637
August	46.00	41.79	45.52	27,429
September	47.19	44.34	45.85	26,021
October	47.25	44.11	47.22	29,818
November	49.90	46.52	48.75	24,821
December	51.75	48.63	49.32	21,784

Class A Preferred Shares

	Series 1				Series 2			
	Price ($)			Trading Volume (thousands)	Price ($)			Trading Volume (thousands)
	High	Low	Close		High	Low	Close	
January	26.15	25.11	25.37	384	26.20	25.21	25.38	270
February	25.70	25.26	25.49	318	25.80	25.35	25.75	289
March	25.94	25.03	25.58	383	25.92	25.26	25.68	381
April	25.80	24.36	24.70	235	25.90	24.75	24.75	214
May	25.00	23.90	24.72	489	25.10	24.25	24.60	251
June	25.10	24.50	24.71	299	25.05	24.55	24.70	346
July	24.98	24.66	24.90	164	25.15	24.47	25.00	311
August	25.49	24.56	25.15	540	25.46	24.98	25.30	460
September	25.60	25.05	25.51	146	25.67	25.27	25.60	502
October	25.84	25.40	25.62	360	25.73	25.35	25.64	573
November	25.99	25.25	25.98	499	26.19	25.28	25.75	372
December	25.99	25.43	25.99	254	26.10	25.57	26.00	207

	Series 3				Series 4			
	Price ($)			Trading Volume (thousands)	Price ($)			Trading Volume (thousands)
	High	Low	Close		High	Low	Close	
January	24.89	24.30	24.30	802	—	—	—	—
February	24.64	24.20	24.50	1,000	—	—	—	—
March	24.99	24.40	24.61	715	—	—	—	—
April	25.06	23.85	23.95	363	—	—	—	—
May	24.39	23.63	24.12	271	—	—	—	—
June	24.52	23.80	24.25	452	—	—	—	—
July	24.45	24.00	24.15	447	—	—	—	—
August	24.75	24.11	24.40	475	—	—	—	—
September	24.94	24.40	24.70	190	—	—	—	—
October	24.75	24.26	24.45	517	24.99	23.94	24.05	2,072
November	24.75	24.07	24.60	587	24.55	24.00	24.32	1,277
December	25.00	24.25	24.79	324	24.89	24.26	24.86	852

On February 2, 2007, SLF Inc. issued 10,000,000 Class A Preferred Shares Series 5.

Sales of unlisted securities

On March 13, 2006, SLF Inc. issued $700 million of Series B Senior Unsecured Senior 4.9 5% Fixed/Floating Debentures (Series B Debentures) due in 2036. On July 11, 2006, SLF Inc. issued $300 million of Series C Senior Unsecured Senior 5.0% Fixed/Floating Debentures (Series C Debentures) due in 2031. These debentures are not listed or quoted on a public market.

Dividends

SLF Inc.'s policy is to pay dividends on its Common Shares in a range that is comparable to that of common share dividends paid by other publicly traded North American financial institutions. On February 9, 2006, the Board of Directors approved an increase in the target dividend payout ratio from a range of 25% to 35% of common shareholders' net income to a range of 30% to 40%. The Board of Directors reviews this policy on a periodic basis.

Dividends Declared

	2006	2005	2004
Common Shares	$ 1.15	$ 0.99	$0.86
Class A Preferred Shares			
Series 1	$1.187500	$1.000	—
Series 2	$1.200000	$0.553	—
Series 3	$1.069067	—	—
Series 4	$0.249932	—	—
Series 5	—	—	—

SLF Inc. is prohibited under the Insurance Act from declaring or paying a dividend on any of its issued shares if there are reasonable grounds for believing that it is, or the payment would cause it to be, in contravention of any regulation under the Insurance Act with respect to the maintenance of adequate capital and adequate and appropriate forms of liquidity, or any direction to SLF Inc. made by the Superintendent of Financial Institutions, Canada (the Superintendent) pursuant to subsection 515(3) of the Insurance Act regarding its capital or liquidity. In addition, the Insurance Act prohibits an insurance company from declaring or paying a dividend without the Superintendent's approval if the total of all dividends declared by that company in that year would exceed the aggregate of the company's net income up to the date of the dividend and its retained net income for the preceding two years. As of the date hereof, these limitations would not restrict a payment of dividends on SLF Inc.'s shares, and no such direction to SLF Inc. has been made. In addition, SLF Inc. must provide at least 10 days' prior notice to the Superintendent before paying any dividends and, in certain limited circumstances, would be required to obtain the Superintendent's approval before declaring or paying dividends.

As a holding company, SLF Inc. depends primarily on the receipt of funds from its subsidiaries to pay shareholder dividends and operating expenses. The source of these funds is primarily dividends and capital repayments that SLF Inc. receives from its subsidiaries. The inability of its subsidiaries to pay dividends or return capital in the future may materially impair SLF Inc.'s ability to pay dividends to shareholders or to meet its cash obligations. Additional information concerning legislation regulating the ability of SLF Inc.'s subsidiaries in Canada, the U.S. and the U.K. to pay dividends or return capital can be found in this AIF under the heading "Regulatory matters".

SLF Inc. and Sun Life Assurance have covenanted that, if a distribution is not paid when due on any outstanding Sun Life ExchangEable Capital Securities (the SLEECS) issued by Sun Life Capital Trust, Sun Life Assurance will not pay dividends on its "Public Preferred Shares", if any are outstanding. If Sun Life Assurance does not have any Public Preferred Shares then SLF Inc. will not pay dividends on its preferred shares or Common Shares, in each case, until the 12th month following the failure to pay the required distribution in full, unless the required distribution is paid to the holders of SLEECS. "Public Preferred Shares" means preferred shares issued by Sun Life Assurance which: (a) have been issued to the public (excluding any preferred shares held beneficially by affiliates of Sun Life Assurance); (b) are listed on a recognized stock exchange; and (c) have an aggregate liquidation entitlement of at least $200 million. None of Sun Life Assurance's issued shares qualify as "Public Preferred Shares" as at the date of this AIF.

SLF Inc. may not declare or pay dividends on its Class A Preferred Shares Series 1, Series 2, Series 3, Series 4 and Series 5 if Sun Life Assurance's Minimum Continuing Capital and Surplus Requirements ratio (established by the Superintendent) is less than 120%.

Security ratings

The ratings assigned to SLF Inc.'s Class A Preferred Shares, Series 1, 2, 3, 4 and 5 and to its Senior Unsecured Debentures, Series A, B and C by rating agencies are listed in the adjacent table. Security ratings assigned to securities by the rating agencies are not a recommendation to purchase, hold or sell these securities, in as much as such ratings do not comment as to market price or suitability for a particular investor. Security ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The Company provides certain rating agencies with confidential, in-depth information in support of the rating process.

Security Ratings

	DBRS [1]		S & P[2]	
	Rating	**Rank**	**Rating**	**Rank**
Class A Preferred Shares				
Series 1-5	Pfd-1 (low)	1 of 6	P-1 (low)/A	1 of 5[3]
Senior Unsecured Debentures				
Series A-C	AA (low)	2 of 10	AA-	2 of 10

1 Dominion Bond Rating Service (DBRS)

2 Standard & Poors, a division of The McGraw-Hill Companies, Inc. (S&P)

3 Reflects Canadian scale, corresponds to 4 of 20 on Global scale

Dominion Bond Rating Service

The DBRS rating scale for long-term debt is meant to provide an indication of the risk that a borrower will not fulfill its obligations in a timely manner with respect to both principal and interest. Under the DBRS system, debt securities that are rated AA are of superior credit quality and the protection of interest and principal is considered high. An AA rated entity is considered to be a strong credit and typically exemplifies above average strength in key areas of consideration and is unlikely to be significantly affected by reasonably foreseeable events. A reference to "high" or "low" reflects the relative strength within the rating category, while the absence of either a "high" or "low" designation indicates the rating is placed in the middle of the category.

The DBRS preferred share rating scale is used in the Canadian securities market and is meant to provide an indication of the risk that a borrower will not fulfill its full obligations in a timely manner with respect to both principal and dividend commitments. The Pfd-1 rating indicates that the shares are of superior credit quality and have been issued by an entity with strong earnings and balance sheet characteristics. A reference to "high" or "low" again reflects the relative strength within the rating category, while the absence of either a "high" or "low" designation indicates the rating is placed in the middle of the category.

Standard & Poors

The S&P rating scale for long-term debt is based on the likelihood of payment-capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation; and the protection afforded by, and the relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditor's rights. An AA rating indicates that the obligor's capacity to meet its financial commitment is very strong. S&P uses "+" or "—" designations to indicate the relative standing of securities within a particular rating category.

S&P has Canadian and global rating scales for preferred shares. S&P's Canadian scale is a current assessment of the creditworthiness of an obligor with respect to a specific share obligation issued in the Canadian market, relative to preferred shares issued by other issuers in the Canadian market. SLF Inc.'s Class A Preferred Shares, Series 1, 2, 3, 4 and 5 have been assigned A ratings using S&P's global scale for preferred shares and have been assigned P-1 (low) ratings using S&P's Canadian scale for preferred shares. The A rating category is the highest of the nine categories used by S&P on its global preferred share scale. The P-1 rating category is the highest of the eight categories used by S&P on its Canadian preferred share scale. A reference to "high", "medium" or "low" reflects the relative strength within the rating category.

Asset-backed securities

Sun Life Financial issues asset-backed securities from time to time as part of its normal course of business. Details of Sun Life Financial's asset securitization program are presented in SLF Inc.'s 2006 MD&A under the heading "Financial Position and liquidity – Off-Balance sheet arrangements – asset securitization" and in Note 6 to SLF Inc.'s 2006 Consolidated Financial Statements.

Transfer agents and registers

Common Share Transfer Agents and Registers

Country	Transfer Agent and Location of Registers
Canada and the United States	CIBC Mellon Trust Company P.O. 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 Hongkong and Shanghai Banking Corp. Ltd. 30/F The Discovery Suites, #25 ADB Avenue, Ortigas Centre, Pasig, Metro Manila, Philippines
Hong Kong	Computershare Hong Kong Investor Services Limited 18th Floor, Rooms 1806 — 1807, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

CIBC Mellon Trust Company Limited is the transfer agent for SLF Inc.'s Class A Preferred Shares Series 1, 2, 3, 4 and 5 and the registrar for SLF Inc.'s Series A, B and C Debentures and the registers for those securities are maintained in Toronto, Ontario, Canada.

Directors and executive officers

Board of Directors

At December 31, 2006, the Board of Directors of SLF Inc. had four standing committees: (1) Audit and Conduct Review, (2) Governance, (3) Management Resources, and (4) Risk Review.

The following table sets out the directors of SLF. Inc. as of the date of this AIF and, for each director, the province or state and country of his or her residence, principal occupation years as a director, and membership on board committees. The term of each director expires at the close of business of the Annual Meeting in 2007. Each of the directors of SLF Inc. is an independent director except Mr. Stewart, the Chief Executive Officer of SLF Inc.

Name and Province/State and Country of Residence	Principal Occupation	Director Since	Board Committee Membership
James C. Baillie Ontario, Canada	of Counsel, Torys LLP	2000	Audit and Conduct Review Risk Review
George W. Carmany, III Massachusetts, USA	President, G.W. Carmany and Company, Inc.	2004	Management Resources Risk Review
John H. Clappison Ontario, Canada	Corporate Director	2006	Audit and Conduct Review Risk Review
David A. Ganong New Brunswick, Canada	President, Ganong Bros. Limited	2002	Governance[1] Management Resources Risk Review[1]
Germaine Gibara Quebec, Canada	President, Avvio Management Inc.	2002	Audit and Conduct Review Governance
Krystyna T. Hoeg Ontario, Canada	Corporate Director	2002	Audit and Conduct Review Risk Review
David W. Kerr Ontario, Canada	Corporate Director	2004	Audit and Conduct Review Management Resources
Idalene F. Kesner Indiana, USA	Chairperson, Department of Management, Frank P. Popoff Chair of Strategic Management, Kelley School of Business, Indiana University	2002	Governance Risk Review
Bertin F. Nadeau Quebec, Canada	Chairman and Chief Executive Officer, GescoLynx Inc.	1999	Governance Management Resources
Ronald W. Osborne Ontario, Canada	Chairman SLF Inc. and Sun Life Assurance	1999	Audit and Conduct Review[2] Governance Management Resources[2] Risk Review[2]
Donald A. Stewart Ontario, Canada	Chief Executive Officer, SLF Inc. and Sun Life Assurance	1999	(none)
W. Vickery Stoughton California, USA	President and Chief Executive Officer, Magnevu Inc.	1999	Governance Management Resources

1 Mr. Ganong resigned from the Governance Committee and joined the Risk Review Committee effective December 6, 2006

2 Mr. Osborne is an ex-officio member of these committees.

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: Ms. Hoeg, who prior to February 2007 was President and Chief Executive Officer of Corby Distilleries Limited; Mr. Clappison, who prior to December 2005 was the Managing Partner of the Greater Toronto Area Office of PriceWaterhouseCoopers; Mr. Kerr, who prior to July 2002 was President and Chief Executive Officer of Falconbridge Limited and prior to August 2006 was Chairman of Falconbridge Limited; Mr. Osborne who, prior to December 2003, was President and Chief Executive Officer of Ontario Power Generation Inc.; and Mr. Stoughton, who in addition to his current occupation which he commenced in September 2006, is a Principal, Anvil Entertainment Inc. and Partner, Wear It Now and who prior to September 2003, was Chairman and Chief Executive Officer of Careside Inc.

No director or executive officer of the Company is or has been, in the 10 years before the date of this AIF, a director or executive officer of a company that, while that person was acting in that capacity, (a) was the subject of a cease trade order or similar order or an order that denied the company access to any exemptions under Canadian securities legislation, for a period of more than 30 consecutive days, (b) was subject to an event that resulted, after that person ceased to be a director or executive officer, in the issuer being the subject of a cease trade or similar order or an order that denied the issuer access to any exemption under Canadian securities legislation, for a period of more than 30 consecutive days, or (c) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets except for the following:

(i) Professor Kesner, a director of SLF Inc., was a director of Harriet & Henderson Yarns, Inc. until May 2003. In July 2003 Harriet & Henderson Yarns, Inc. filed a voluntary petition under Chapter 11 of the Bankruptcy Code in the United States. Ms. Kesner is no longer a director of Harriet & Henderson Yarns, Inc.;

(ii) Messrs. Ganong and Osborne, directors of SLF Inc., were directors of Air Canada when it filed for protection under the Companies' Creditors Arrangement Act in April 2003. Air Canada successfully emerged from those proceedings and was restructured pursuant to a plan of arrangement in September 2004. Messrs. Ganong and Osborne are no longer directors of Air Canada;

(iii) Mr. Stoughton, a director of SLF Inc., was a director of Careside, Inc. when it filed a voluntary petition under Chapter 11 of the Bankruptcy Code in the United States in October 2002. Mr. Stoughton is no longer a director of Careside, Inc.; and

(iv) Mr. Osborne was a director of Nortel Networks Corporation and Nortel Networks Limited (collectively, Nortel) when on April 10, 2006 the Ontario Securities Commission (OSC) issued a management cease trade order prohibiting all directors, officers and certain other current and former employees of Nortel from trading in securities of Nortel until two business days following receipt by the OSC of all filings required to be made by Nortel pursuant to Ontario securities laws. This order resulted from Nortel's need to restate certain previously reported financial results and related delays in filing certain of its 2005 financial results. This order was revoked effective June 8, 2006. Mr. Osborne is no longer a director of Nortel.

Audit and Conduct Review Committee

The responsibilities and duties of the Audit and Conduct Review Committee are set out in its charter, a copy of which is attached as Appendix A.

The Board of Directors has determined that each member of its Audit and Conduct Review Committee is independent as defined in the Company's Director Independence Policy and is financially literate. In the board's judgment, a member of the Committee is financially literate if, after seeking and receiving any explanations or information from senior financial management of the Company or the auditors of the Company that the member requires, the member is able to read and understand the consolidated financial statements of the Company to the extent sufficient to be able to intelligently ask, and to evaluate the answers to, probing questions about the material aspects of those financial statements.

The members of the Audit and Conduct Review Committee as of the date of this AIF and their qualifications and education are set out below.

Krystyna T. Hoeg (Chair) received her designation as a Chartered Accountant in Canada in 1980 while working at the firm of Touche Ross. She joined the Allied Domecq group of companies in 1985 and has held a number of senior financial positions with Hiram Walker & Sons Ltd., Hiram Walker — G&W Ltd. and Allied Domecq. In 1996, she was appointed President and Chief Executive Officer of Corby Distilleries Limited, a position she held until February 1, 2007. Ms. Hoeg joined the board of directors and audit committee of Clarica Life Insurance Company (Clarica) in 1999 and was appointed Chair of the Clarica audit committee in 2000. She joined the Board of Directors and the Audit and Conduct Review Committee of SLF Inc. and Sun Life Assurance in 2002 and became a member of the Risk Review Committee in 2004. In 2005, she was appointed Chair of the Audit and Conduct Review Committee. Ms. Hoeg is also a director and a member of the audit committee of Ganong Bros. Limited and Shoppers Drug Mart Corporation and a trustee and member of the audit committee of Cineplex Galaxy Income Fund.

James C. Baillie is of Counsel at Torys LLP, a law firm. He was called to the Bar in 1963 and has been with the Torys firm since then, first as an associate, then a partner, then of Counsel. The only exception is his service as Chairman of the Ontario Securities Commission from 1979 to 1981. Mr. Baillie joined the Board of Directors of SLF Inc. and Sun Life Assurance in 2000. He joined the Audit and Conduct Review Committee of SLF Inc. and Sun Life Assurance in 2001 and became a member of the Risk Review Committee in 2003. He was appointed the Chairman of the Risk Review Committee in 2004. Mr. Baillie is a director of MFS and the chair of its audit committee. He is also the Chair of the Auditing and Assurance Standards Oversight Council, which oversees the Audit and Assurance Standards Board, a national body with the authority and responsibility for setting auditing and assurance standards for the public and private sectors in Canada. He is a director and chairman of the audit committee of Decision Dynamics Technology Ltd., a trustee and member of the audit committee of Royal Utilities Income Fund and a director of Bridgepoint Health Canada and several other not-for-profit corporations.

John H. Clappison is a Chartered Accountant who joined the firm of Price Waterhouse in 1968. He became a Partner of the firm in 1980 and in 1990 became Managing Partner of the Greater Toronto Area office, a position he continued to hold after the merger of Price Waterhouse with Coopers & Lybrand to form PricewaterhouseCoopers in 1998, until he retired in December 2005. He was appointed a Fellow of the Institute of Chartered Accountants of Ontario in 1988. He has lectured on accounting practices at Ryerson University, the University of Toronto and the Ontario Institute of Chartered Accountants School of Accountancy. Mr. Clappison joined the Board of Directors, the Audit and Conduct Review Committee and the Risk Review Committee of SLF Inc. and Sun Life Assurance in 2006. He is a director and member of the audit committee of Cameco Corporation and Rogers Communications Inc. He is also a director of Summit Energy Management Inc. He is a Trustee of the Shaw Festival Theatre Endowment Foundation and St. Michael's Hospital Foundation and a member of the Board of Trustees of The Art Gallery of Ontario Endowment Foundation.

Germaine Gibara received her designation as a Certified Financial Analyst in 1984. She received a Masters of Economics and Political Science degree from Dalhousie University and completed the Program for Management Development at Harvard Business School. Ms. Gibara has held senior positions with a number of financial service and resource-based companies, including Alcan Automotive Structures, TAL Global Asset Management Inc. and Caisse de dépôt et placement du Québec. She is President of Avvio Management Inc. Ms. Gibara joined the Clarica Board of Directors in 1997. She joined the Board of Directors and Risk Review Committee of SLF Inc. and Sun Life Assurance in 2002 and joined the Audit and Conduct Review Committee in 2004. Ms. Gibara is a director of the CPP Investment Board, the Canadian Auditing and Assurance Standards Oversight Council and Agrium Inc. She is also a director and member of the audit committee of Cogeco Cable Inc. and St. Lawrence Cement Group Inc. She was a director of the Economic Council of Canada between 1991 and 1993.

David W. Kerr received his designation as a Chartered Accountant in Canada in 1969 while working at the firm of Touche Ross. He joined what has become Brookfield Asset Management Inc. group in 1972, serving in various senior financial positions. Most recently, he was President and Chief Executive Officer of Falconbridge Limited (formerly Noranda Inc.) from 1990 to 2002. From 2002 until 2006, he was Chairman of Falconbridge Limited. Mr. Kerr joined the Board of Directors and Audit and Conduct Review Committee of SLF Inc. and Sun Life Assurance in December 2004. He is a director of Brookfield Asset Management Inc. and a director and member of the audit committee of Shell Canada Limited and a director and Chair of the audit committee of Sustainable Development Technology Canada.

SLF Inc.'s Board of Directors has determined that Ms. Krystyna T. Hoeg is an audit committee financial expert as defined by the SEC. The SEC has indicated that the designation of a person as an audit committee financial expert does not make that person an "expert" for any purpose, or impose any duties, obligations or liabilities on that person that are greater than those imposed on members of the audit committee and board of directors who do not carry this designation or affect the duties, obligations or liabilities of any other member of the audit committee or board of directors.

Executive officers

Each executive officer of SLF Inc. has held his current position or other senior positions with the Company during the past five years with the following exceptions: Prior to September 2006, Mr. Connor was President, Americas, Mercer Human Resource Consulting. Prior to May 2005 he was President, US, Mercer and prior to November 2004 was Chairman and Chief Executive Officer, Canada, Mercer. Prior to April 2005, Mr. Mansbridge was Vice-President, Information Technology with ATI Technologies. Prior to January 2004, he was Senior Vice-President and Chief Information Officer with Celestica Incorporated and prior to January 2002, Vice-President, Information Technology, Americas with Celestica Incorporated. Prior to September, 2006 Mr. McKenney was Senior Vice-President and Chief Financial Officer, Genworth Financial, Inc. Prior to October, 2003 he was Senior Vice-President and Chief Financial Officer, GEI Inc. Prior to September 2006, Mr. Rajotte was Senior Vice-President and General Manager of Asia Pacific Region for the International Division of MetLife, Inc. and prior to July 2005, Vice-President, Sales and Marketing for the International Division of MetLife, Inc. 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. Prior to December 2002, Mr. Stramaglia was Executive Vice-President, Reinsurance and Chief Investment Officer of Clarica. As previously disclosed, Mr. Derksen will resign as Executive Vice-President and Chief Financial Officer upon his retirement on February 28, 2007 and Mr. McKenney will become the Executive Vice-President and Chief Financial Officer at that time.

Executive Officers

Name and Province/State and Country of Residence	Position
Donald A. Stewart Ontario, Canada	Chief Executive Officer
James M.A. Anderson Ontario, Canada	Executive Vice-President and Chief Investment Officer
Thomas A. Bogart Ontario, Canada	Executive Vice-President and Chief Legal Officer
Dean A. Connor Ontario, Canada	Executive Vice-President
Paul W. Derksen Ontario, Canada	Executive Vice-President and Chief Financial Officer
Kevin P. Dougherty Ontario, Canada	President, SLF Canada
Robert W. Mansbridge Ontario, Canada	Executive Vice-President and Chief Information Officer
Richard P. McKenney Ontario, Canada	Executive Vice-President
Stephan Rajotte Hong Kong	President, SLF Asia
Robert C. Salipante Massachusetts, USA	President, SLF U.S.
Michael P. Stramaglia Ontario, Canada	Executive Vice-President and Chief Risk Officer

Shareholdings of directors and executive officers

As at December 31, 2006, SLF Inc.'s Directors and executive officers, as a group, owned, directly or indirectly, or had voting control or direction over 276,597 Common Shares of SLF Inc., or less than 1% of the total Common Shares outstanding.

Code of ethics

Sun Life Financial's approach to business conduct is based on ethical behaviour, adhering to high business standards, integrity and respect. The Board of Directors sets the "tone from the top" and satisfies itself that senior management sustains a culture of integrity throughout the organization. The Board has adopted the Sun Life Financial Code of Business Conduct that applies to directors, officers and employees, including its Chief Executive Officer, Executive Vice-President and Chief Financial Officer, and Senior Vice-President, Finance. The Sun Life Financial Code of Business Conduct has been filed with securities regulators in Canada and with the SEC and may be accessed at www.sedar.com and www.sec.gov respectively.

The Risk Review Committee reviews the effectiveness of, and compliance with, the Code of Business Conduct and reports on its review to the Board of Directors on an annual basis. The Governance Committee reviews and makes recommendations to

the Board of Directors on amendments to the Code of Business Conduct. No waivers of the Code for directors or executive officers have been granted.

Principal accountant fees and services

Audit fees were paid for professional services rendered by the auditors for the audit of Sun Life Financial's annual consolidated financial statements and segregated funds as well as services provided in connection with statutory and regulatory filings.

Fees for audit-related services were paid for assurance and related services that are reasonably related to the performance of the audit or review of the annual consolidated financial statements and are not reported under the audit fees category above. These services consisted primarily of reviews of the Company's internal control reporting preparedness, CFA Institute (formerly the Association of Investment Management and Research) verifications, and employee benefit plan audits.

Audit Fees

	Year Ended December 31		
($ millions)	**2006**	**2005**	**2004**
Audit Services	21.1	13.6	10.2
Audit-Related Services	2.5	3.6	3.5
Tax Services	0.1	0.6	2.2
Other Services	0.6	0.7	0.4

Fees for tax services were paid for tax compliance, tax advice and tax planning professional services. These services included the review of original and amended tax returns, assistance with questions regarding tax audits and refund claims, tax planning and advisory services relating to domestic and international taxation.

Other fees were paid for products and services other than the audit fees, audit-related fees and tax fees described above.

Policy for approval of auditor services

SLF Inc. has established a policy requiring pre-approval of services provided by its external auditors, a copy of which is attached as Appendix B. All fees paid to SLF Inc.'s external auditors since the policy was established have been approved by the Audit and Conduct Review Committee in accordance with the policy in effect at the relevant time.

Interests of experts

Deloitte & Touche LLP, the external auditors of SLF Inc., provided an audit opinion on SLF Inc.'s 2006 Consolidated Financial Statements.

Robert W. Wilson, SLF Inc.'s Appointed Actuary provided an opinion on the value of policy liabilities for SLF Inc.'s consolidated balance sheets at December 31, 2006 and 2005 and the change in the consolidated statements of operations for the years then ended. Mr. Wilson owned beneficially, directly or indirectly, less than 1% of all outstanding securities or other property of SLF Inc. or its affiliates when he prepared that opinion, or after that opinion was prepared, and he does not expect to receive any such securities or other property in excess of that amount in the future.

Regulatory matters

Sun Life Financial is subject to regulation and supervision by governmental authorities in the jurisdictions in which it does business.

Canada

General

SLF Inc. is governed by the Insurance Act. OSFI administers the Insurance Act and supervises the activities of Sun Life Financial. SLF Inc. has all the powers and restrictions applicable to life insurance companies governed by the Insurance Act, which permits insurance companies to offer, directly or through subsidiaries or 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 to ensure that it has an overview of activities of SLF Inc. and its consolidated subsidiaries. This consolidated regulation includes the ability to review both insurance and non-insurance activities, whether inside or outside of Canada, conducted by subsidiaries of SLF Inc. and adequate supervisory power to bring about corrective action.

Investment powers

Under the Insurance Act, a life insurance company must maintain a prudent portfolio of investments, subject to certain overall limitations on the amount it may invest in certain classes of investments, such as commercial loans, real estate and stocks. Additional restrictions (and, in some cases, the need for regulatory approvals) limit the type of investments which Sun Life Financial can make in excess of 10% of the voting rights or 25% of the equity of any entity.

Capital and surplus requirements

OSFI has established guidelines which set out the framework within which the Superintendent will assess whether regulated insurance holding companies and non-operating life companies (collectively, Insurance Holding Companies) are maintaining adequate capital. Under these guidelines, Insurance Holding Companies and certain of their qualified foreign life insurance company subsidiaries (significant foreign life subsidiaries), are not subject to the Minimum Continuing Capital Surplus Requirements (MCCSR) that apply to Canadian life insurance companies. OSFI's capital requirements do not establish minimum or targeted capital requirements for Insurance Holding Companies. Rather, Insurance Holding Companies, such as SLF Inc., are expected to manage their capital in a manner commensurate with their risk profile and control environments. Significant foreign life subsidiaries are not subject to the MCCSR rules, but are expected to comply with the capital adequacy requirements imposed in the foreign jurisdictions in which they operate. For the purposes of determining available capital, an Insurance Holding Company will deduct the capital of its significant foreign life subsidiaries and then add back any excess capital or deduct any capital deficit of such subsidiaries, based upon the capital adequacy rules of the jurisdictions in which those subsidiaries operate (see Regulatory Matters — United States). The Company's principal operating life insurance company in the United States, Sun Life Assurance Company of Canada (U.S.), is qualified as a significant foreign life subsidiary.

Sun Life Assurance continues to be subject to the MCCSR rules on a consolidated basis. 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 referred to above. OSFI uses this total, in conjunction with the amount calculated as available capital, together with other considerations, in assessing the capital adequacy of Canadian life insurance companies. OSFI generally expects Canadian life insurance companies to maintain a

minimum MCCSR of 150% or greater, based on the risk profile of the relevant insurance company. Sun Life Assurance's MCCSR ratio as at December 31, 2006 exceeded the levels that would require any regulatory or corrective action.

The principal elements used to calculate available capital for Insurance Holding Companies and for Canadian life insurance companies include common shares, contributed surplus, retained earnings, 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 Insurance Holding Companies or Canadian life insurance companies through borrowing or issuing securities are treated as different categories of available capital, depending on the characteristics of the instrument issued.

Insurance Holding Companies and Canadian life insurance companies must then reduce the amount of their available capital by the aggregate of their goodwill and controlling interests in non-life financial corporations, non-controlling substantial investments in corporations, a portion of 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, taking into account such factors as operating experience and diversification of asset or insurance portfolios. OSFI may intervene and assume control of an Insurance Holding Company or a Canadian life insurance company if it deems the amount of available capital insufficient. Capital requirements may be adjusted by OSFI in the future as experience develops, the risk profile of Canadian life insurers changes, or to reflect other risks.

Restrictions on dividends and capital transactions

The Insurance Act prohibits the declaration or payment of dividends on shares of an Insurance Holding Company or a Canadian life insurance company if there are reasonable grounds for believing the company does not have, or the payment of the dividend would cause the company not to have, adequate capital or liquidity and requires that companies notify the Superintendent of the declaration of a dividend at least 10 days prior to the date fixed for its payment and, in certain circumstances, requires the prior approval of the Superintendent.

The Insurance Act also prohibits the purchase for cancellation of shares issued by an Insurance Holding Company or a Canadian life insurance company or the redemption of redeemable shares or other similar capital transactions, if there are reasonable grounds for believing that the company does not have, or the payment would cause the company not to have, adequate capital or liquidity. Further, any purchase for cancellation of any shares issued by an Insurance Holding Company or a Canadian life insurance company or the redemption of redeemable shares or similar capital transactions is prohibited without the prior approval of the Superintendent.

Restrictions on ownership

The Insurance Act contains restrictions on the purchase or other acquisition, issue, transfer and voting of the shares of an insurance company. Pursuant to these restrictions:

- No person is permitted to acquire any shares of SLF Inc. if the acquisition would cause the person to have a "significant interest" in any class of shares of SLF Inc., without the prior approval of the Minister of Finance of Canada.
- SLF Inc. is not permitted to record any transfer or issue of shares of SLF Inc. if the transfer or issue would cause the person to have a significant interest in SLF Inc., unless prior approval is obtained from the Minister of Finance of Canada.
- No person who has a significant interest in SLF Inc. may exercise any voting rights attached to the shares held by that person, unless prior approval of the Minister of Finance of Canada is obtained. A person has a significant interest in a class of shares where the aggregate of any shares of that class beneficially owned by that person, any entity controlled by that person and any person acting jointly or in concert with that person exceeds 10% of all of the outstanding shares of that class of shares.

Under the Insurance Act, the Minister of Finance of Canada may approve only the acquisition of a significant interest of up to 30% of any class of non-voting shares and up to 20% of a class of voting shares, provided that the person acquiring those shares does not have direct or indirect influence over SLF Inc. that, if exercised, would result in that person having control in fact of SLF Inc. In addition, the Insurance Act prohibits life insurance companies, including SLF Inc., from recording a transfer or issuing shares of any class to Her Majesty in right of Canada or of a province, an agent of Her Majesty, a foreign government or an agent of a foreign government.

SLF Inc. is required to continue to control, but not wholly own, Sun Life Assurance. Any shares of Sun Life Assurance that are not owned by SLF Inc. are required to meet the widely held criteria (no individual may own more than 10% of any class of shares without prior Minister approval). The 20% limit on voting share ownership and 30% limit on non-voting share ownership apply to the direct and indirect cumulative ownership of Sun Life Assurance, with the effect that no single investor will be able to use the holding company structure to exceed the ownership restrictions.

Appointed Actuary

In accordance with the Insurance Act, SLF Inc.'s Board of Directors has appointed a Fellow of the Canadian Institute of Actuaries as its "Appointed Actuary". The Appointed Actuary must provide an opinion on:

- the value of the Company's consolidated policy liabilities as at the end of each period in accordance with accepted actuarial practices, including the selection of appropriate assumptions and methods,
- whether the amount of policy liabilities makes appropriate provisions for all obligations to policyholders, and
- whether the valuation of liabilities is fairly presented in the consolidated financial statements.

The Insurance Act requires that the Appointed Actuary meet with the Board of Directors or the Audit and Conduct Review Committee at least once in each financial year to report, in accordance with accepted actuarial practice, on the Company's financial position and its expected future financial condition. The Appointed Actuary must report to the Chief Executive Officer and the Chief Financial Officer of SLF Inc. if the Appointed Actuary identifies any matters which, in the Appointed Actuary's opinion, could have material adverse effects on the financial condition of SLF Inc.

Provincial/territorial insurance regulation

Sun Life Financial is subject to provincial regulation and supervision in each province and territory in Canada in which it carries on business. Provincial insurance regulation is concerned primarily with the form of insurance contracts and the sale and marketing of insurance and annuity products, including the licensing and supervision of insurance producers. Individual variable insurance and annuity products and the underlying segregated funds to which they relate are subject to guidelines adopted by the Canadian Council of Insurance Regulators and incorporated by reference into provincial insurance regulations. These guidelines govern a number of matters relating to the sale of these products and the administration of the underlying segregated funds. Sun Life Financial is licensed to 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

Certain of SLF Inc.'s subsidiaries, including McLean Budden Limited and Clarica Investco 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.

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. Most jurisdictions have laws and regulations governing the financial aspects of insurers, including standards of solvency, reserves, reinsurance, capital adequacy and the business conduct of insurers. In addition, the laws of the various states establish state insurance departments with broad administrative powers to approve policy forms and related materials and, for certain lines of insurance, approve rates, grant and revoke licenses to transact business, regulate trade practices, license agents, 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 regulators 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 judgment, 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. 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, advertising, sales practices and complaint handling. Examinations are sometimes conducted in cooperation with the departments of other states under guidelines published by the National Association of Insurance Commissioners (NAIC).

SLF Inc. is not regulated as an insurance company in the United States. SLF Inc. is the direct or indirect owner of the capital stock of Sun Life Assurance and several U.S. insurance subsidiaries that are regulated as insurance companies in the United States, and which are therefore subject to the insurance holding company legislation in the states in which they 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.

SLF Inc.'s U.S. insurance subsidiaries are domiciled in Delaware, Rhode Island and New York. Michigan is Sun Life Assurance's "state of entry" and 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, transactions within the holding company system to which the domestic insurer is a party must be fair and equitable and such insurer's policyholder surplus following any such transaction must be both reasonable in relation to its outstanding liabilities and adequate for its needs. Most states require prior regulatory approval of the change of control of the domestic insurer or an entity that controls the domestic insurer and prior notice or regulatory approval of material intercorporate transfers of assets or other material affiliate transactions to which a domestic insurer is a party. Generally, under such laws, a state insurance authority must approve in advance the direct or indirect acquisition of 10% or more of the voting securities of an insurance company domiciled in the state.

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 U.S. insurance subsidiaries are, collectively, licensed to transact business in all states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands.

Restrictions on dividends

The U.S. insurance holding company system laws and regulations of various states regulate the amount of dividends that an insurance company may pay to its parent without prior regulatory approval. In addition, covenants in surplus notes affect SLF Inc.'s 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 the Financial Analysis Solvency Tracking System, is also used for monitoring. Insurance companies generally submit data to the NAIC, which in turn analyzes the data using prescribed financial data ratios, each with defined "usual ranges". Generally, if four or more of an insurance company's ratios fall outside the usual ranges, regulators will begin to investigate or monitor the company. Regulators have the authority to impose remedies ranging from increased monitoring to certain business limitations with various degrees of supervision. For the 12 months ended December 31, 2005, the most recent period for which results are currently available, Sun Life Assurance's U.S. branch and SLF Inc.'s U.S. insurance subsidiaries were within the usual ranges for most of the IRIS ratios. Management believes that the ratios which were outside the usual range did not indicate any adverse solvency issues.

Statutory investment and other valuation reserves

Under NAIC rules, life insurance companies must maintain an asset valuation reserve (AVR), supplemented by an interest maintenance reserve. 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 effect 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 Sun Life Assurance's U.S. branch (see discussion below under "*Minimum Statutory Surplus and Capital*"). The impact of the AVR, which is a provision for potential asset credit defaults, will depend upon future composition of the investment portfolios of Sun Life Assurance's U.S. branch and SLF Inc.'s U.S. life insurance subsidiaries.

Michigan insurance law and the laws of several other states require life insurance companies to analyze the adequacy of their reserves annually. The appointed actuary for Sun Life Assurance's U.S. branch must submit an opinion that such reserves, when considered in light of the assets held with respect to those reserves, make adequate provision for Sun Life Assurance's associated contractual obligations and related expenses. The appointed actuary for each of the U.S. life insurance subsidiaries is required to submit a similar annual opinion. If such opinion cannot be provided, the affected insurer must set up additional reserves by moving funds from surplus.

In 1998, the NAIC revised its "Valuation of Life Insurance Policies Model Regulation" to change the minimum statutory reserve requirements for certain new individual life insurance policies issued after January 1, 2000. These reserve standards have been enacted by most of the states. As a result, insurers selling certain individual life insurance products such as term life insurance with guaranteed premium periods and universal life products with secondary guarantees may need to adjust reserves and/or shorten guarantee periods. The NAIC has recently adopted revisions to certain actuarial guidance related to this model regulation that will reduce its impact with respect to new policies issued after January 1, 2007.

Risk-based capital requirements

In order to enhance the regulation of insurers' solvency, the NAIC adopted a model law to implement risk-based capital (RBC) 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 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. Management believes that the RBC ratios for Sun Life Assurance's U.S. branch and SLF Inc.'s U.S. insurance subsidiaries as of December 31, 2006, exceeded the levels that would require any regulatory or corrective action.

Minimum statutory surplus and capital

Sun Life Assurance's U.S. branch and SLF Inc.'s U.S. life insurance subsidiaries are required to have minimum statutory surplus and capital of various amounts, depending on the state in which they are licensed and the types of business they transact.

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. Amendments to the trust agreement must be approved by the Michigan Insurance Commissioner. Management believes that as at December 31, 2006, Sun Life Assurance's U.S. branch had assets in trust in excess of Michigan's requirements for branches of alien insurers.

Regulation of investments

Sun Life Assurance's U.S. branch and SLF Inc.'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 in vestment 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 limits to be treated as non-admitted assets for purposes of measuring surplus and, in some instances, would require divestiture of such non-qualifying investments.

Assessments against insurers

Insurance guaranty association laws exist in all states, the District of Columbia and Puerto Rico. These laws require insurers doing business in a state to participate in the local association. The associations may levy assessments for policyholder losses incurred by impaired or insolvent insurance companies. Generally, assessments up to certain prescribed limits are based upon the proportionate share of premiums written by member insurers in the lines of business in which the impaired or insolvent insurer is engaged. A large part of the assessments paid by Sun Life Financial pursuant to these laws may be used as credits for a portion of its U.S. premium taxes.

General regulation of insurance at federal level

Although the U.S. federal government does not directly regulate the insurance business, federal legislation and administrative policies in several areas affect the insurance business, including pension regulation, age and sex discrimination, investment company regulation, financial services regulation and federal taxation. For example, the U.S. Congress has from time to time considered legislation related to the deferral of taxation on the accretion of value within certain annuities and life insurance products, limitations on antitrust immunity, the alteration of the federal income tax structure and the availability of 401(k) or individual retirement accounts. 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.

The *Pension Protection Act of 2006* amended many provisions of the *Internal Revenue Code* and the *Employee Retirement Income Security Act of 1974* (ERISA). Among other things, the act allows the combination of life insurance and annuity contracts with long-term care insurance features beginning in 2010, makes annuities more available through employer-sponsored plans, and codifies current best practices on corporate-owned life insurance policies into federal law.

During 2006, legislation entitled *The National Insurance Act of 2006* was introduced in the U. S. House of Representatives and the U.S. Senate. This legislation would have allowed insurers to choose between being regulated by a single federal regulator to remain regulated by the states. It is likely that similar legislation will be introduced in 2007.

During 2005, legislation entitled *The Retirement Security for Life Act of 2005* was introduced in the U.S. House of Representatives and the U.S. Senate. This legislation would have provided an income tax incentive that would encourage retirees to choose annuities that provide for lifetime income. It is likely that similar legislation will be introduced in 2007.

The *American Jobs Creation Act of 2004* was signed into law in October 2004. While this legislation had major implications for many other companies, including others in the insurance industry, it has not had a material impact on SLF Inc. or any of it s U.S. subsidiaries.

Title III of the *USA PATRIOT Act of 2001* (PATRIOT Act) amended the Money Laundering Control Act of 1986 and the Bank Secrecy Act of 1970 to expand anti-money laundering 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 anti-money laundering programs that include policies, procedures and controls to detect and prevent money laundering, designate a compliance officer to oversee the program, provide for on-going employee training, and ensure periodic independent testing of the program. On November 3, 2005, the U.S. Treasury Department issued final regulations applicable to the insurance industry. Effective May 2, 2006, these regulations required insurance companies issuing "covered products" to implement anti-money laundering programs and file suspicious activity reports with the U.S. Treasury Department. Sun Life Assurance and SLF Inc.'s U.S. insurance subsidiaries issue covered products and have taken steps to comply with the new rules. It is anticipated that the U.S. Treasury Department will issue regulations requiring insurance companies to establish and enforce customer identification programs in early 2007.

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 considering 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 SEC and under certain state securities laws.

The investment advisory activities of SLF Inc.'s U.S. subsidiaries are subject to 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 (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 funds, are registered with the SEC under the *Investment Company Act of 1940* , as amended, and are subject to the *Securities Exchange Act of 1934* , as amended (Exchange Act), and the shares of certain of these entities are registered under the *Securities Act of 1933*, as amended (Securities Act), and are qualified for sale in certain states in the United States and the District of Columbia and in certain foreign countries.

Certain annuity contracts and insurance policies issued by SLF Inc.'s U.S. subsidiaries are registered under the Securities Act . 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 Exchange Act. Certain of SLF Inc.'s U.S. subsidiaries are registered as broker-dealers under the Exchange Act and are subject, for example, to the SEC's net capital rules, and are members of, and subject to regulation by, the National Association of Securities Dealers, Inc. (NASD). Certain other U.S. subsidiaries of SLF Inc. are registered as transfer agents under the Exchange Act.

Certain U.S. subsidiaries of SLF Inc. issue fixed index annuities, which are not required to be registered under the Securities Act. However, the SEC has been considering whether fixed index annuities should continue to be excluded from registration requirements. In August 2005, the NASD recommended that, due to this uncertainty, broker-dealers should consider supervising their representatives' sales of such products. Sun Life Financial is closely monitoring these developments.

United Kingdom

Insurance regulation

SLF Inc.'s U.K. life insurance subsidiary, Sun Life Assurance Company of Canada (U.K.) Limited (Sun Life (U.K.)) 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 and regulated under the *Financial Services and Markets Act 2000* (FSM Act) by the Financial Services Authority (FSA). All insurance companies authorized under the FSM Act are required to conduct their business in accordance with the senior management arrangements, systems and controls, prudential and conduct of business rules and guidance set out in the *FSA Handbook of Rules and Guidance* (FSA Handbook), including the *Principles for Businesses* contained in the *High Level Standards* of the FSA Handbook. These include a requirement for firms, including insurance companies authorized under the FSM Act, to maintain systems, procedures and controls appropriate to the nature, scale and complexity of their business, to conduct their business with due regard to the interests of their customers and to treat them fairly. Insurance companies that are authorized under the FSM Act are also required under the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Insurers ('INSPRU') (which are part of the FSA Handbook) to file their accounts and balance sheets and other information in the prescribed form with the FSA on an annual basis (with certain information now required to be submitted semi-annually). The regulatory requirements determined at the European Union level are also en acted in the United Kingdom. As a member of the European Union, the United Kingdom is subject to European regulation and a number of relevant European Commission Directives that have been published. While being authorized and regulated by the FSA, Sun Life (U.K.) is also required to comply with the conduct of business standards of the Irish Financial Services Regulatory Authority (IFSRA) in respect of the Company's book of Irish policies, which are also in run-off.

Long-term assets and liabilities

In accordance with the FSA rules set out in the Handbook, Sun Life (U.K.) 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 (U.K.) 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 the PRU impose restrictions on Sun Life (U.K.) from applying assets attributable to its long-term insurance business for purposes other than its long-term business.

Capital resources requirements

The FSA requires that insurance companies authorized under the FSM Act satisfy the capital resource requirements set out in the PRU. The PRU requires insurers to meet the higher of two capital adequacy standards. The first is the long- term insurance capital requirement, which is prescriptive and based on European Commission minimum solvency requirements. The second is the individual capital adequacy framework, which requires each insurer to self-assess what an appropriate amount of capital would be for their business to hold, taking into account the various risks that the insurer faces. The FSA reviews this self-assessment and gives the insurance company individual capital guidance (i.e. the amount of any additional capital the FSA believes the company should hold), where appropriate.

Failure to maintain adequate capital resources is one of the grounds on which the FSA may exercise its wide powers of intervention provided for in the FSM Act. Currently Sun Life (U.K.) meets its capital resources requirements in the United Kingdom.

Restrictions on dividends and capital transactions

Insurance companies in the United Kingdom are subject to the provisions of the *Companies Act 1985* governing the payment of dividends, which prevent any distribution by a company except out of profits available for this purpose. In addition, Sun Life (U.K.) is prohibited from transferring any assets maintained in the account for participating policies to its shareholders and can only pay dividends out of non-participating surplus once this has been transferred from the long-term fund to the shareholders' fund after the annual valuation.

Financial Ombudsman Service

The FSM Act provides for the establishment of an Ombudsman service to provide consumers with a free, independent service to enable disputes with financial firms to be resolved. The rules defining how the Financial Ombudsman Service (FOS) operates are written by the FSA and the two organizations operate closely together. The FOS is funded partly by a statutory levy on authorized firms and partly by a case fee in respect of cases referred to it.

Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) established under the FSM Act provides for the protection of certain individual financial services customers in the United Kingdom who may be affected by the inability of financial services companies, including insurance companies, who carry on regulated business in the United Kingdom to meet their liabilities. The FSCS is funded by statutory levies on authorized and regulated companies.

Intervention

The FSA has extensive powers to intervene in the affairs of an authorized insurance company. These include the power to fine the insurance company and to vary or cancel its permission to carry on regulated activities in the United Kingdom, to 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 has undergone significant changes. In particular, the FSA has implemented 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 (see above) and, specifically, a realistic approach to assessing the capital adequacy of an insurance company's participating business. In addition to these reforms, the FSA has reviewed the governance for participating business and ensuring the fair treatment of policyholders. In line with these reforms, Sun Life (U.K.) published a "Principles and Practices of Financial Management" for its participating funds from May 1, 2004 and a "policyholder friendly" version of that was available from January 1, 2006. A new reform theme that the FSA is considering relates to the governance and management of segregated funds. This aspect of insurance has not received the same degree of regulatory focus in the past as has characterized the treatment of mutual funds. The Association of British Insurers is working with the industry to identify and define the standards of best practice required in managing segregated funds.

The FSA has announced that it will emphasize a principles-based regulatory framework, rather than the current rules-based regulations. The FSA proposes to integrate existing principles and rules into its supervisory framework. Where the FSA decide s to use rules, where possible, these will generally be high level and outcome focused rules. This principles-based regulatory framework may result in some additional uncertainty for regulated firms and the FSA has indicated that it may need to issue guidance on how the FSA expects regulated firms to comply with its principles.

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 risks inherent in Sun Life Financial's operations and its risk management framework are described in SLF Inc.'s 2006 MD& A under the heading "*Risk Management*". In addition, the following risk factors have been identified by management as those which may affect one or more of Sun Life Financial's reportable business segments in the nearer term. These risk factors should be considered in conjunction with the other information in this AIF and the documents incorporated by reference in this AIF.

Equity market risk

Declines and volatility in equity markets could have an adverse effect on Sun Life Financial's business and profitability in several ways. Equity market volatility or declines could occur as a result of general market volatility or as a result of specific social, political or general economic events.

Sun Life Financial derives a portion of its revenue from fee income generated by its wealth management business, which is assessed as a percentage of assets under management and therefore varies 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 revenue and net income.

Sun Life Financial is exposed to certain equity-market related risks associated with its fixed-indexed annuity products that provide for the crediting of interest at rates related to the performance of various equity indices. A substantial decline in the applicable index could prompt holders of fixed-indexed annuities to surrender their policies prior to maturity. While fixed-indexed annuity policies typically provide for early surrender charges and restrictions, an increase in surrenders in such annuities could have an adverse effect on Sun Life Financial.

Certain of Sun Life Financial's variable annuity products sold in the United States and Canada contain guarantees upon death, maturity, withdrawal 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 economic hedging programs in place, has entered into various reinsurance arrangements with respect to these products (whereby Sun Life Financial has ceded certain risk to other insurance companies), and has diversified its exposure to market changes in either direction, if a significant market shift is experienced, the resulting increased cost of providing 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 established reserves related to these guarantees, these guarantees could have an adverse effect on Sun Life Financial, if a significant market shift is experienced that affects these reinsured policies.

Sun Life Financial also has direct exposure to equity markets as a result of the investments supporting surplus. Fluctuations in the market value of those assets could result in fluctuations in profitability.

Interest rate risk

Movements in interest rates could have an adverse effect on Sun Life Financial's business and profitability in several ways. Interest rate volatility could occur as a result of the general market volatility or as a result of specific social, political or general economic events.

Many of the Company's products contain explicit or implicit guarantees and, if long-term interest rates fall below those guaranteed rates, the Company 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 the Company'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. Rapid increases in interest rates may result in, among other things, increased surrenders. Interest rate changes can also produce an unanticipated increase in transfers to separate account (variable) options or surrenders, which may force the Company to sell investment assets at a loss in order to fund such transfers or surrenders and accelerate recognition of certain acquisition expenses. In addition an interest rate sensitivity mismatch between assets and liabilities they are designated to support could result in an adverse effect on Sun Life Financial's financial position and results of operations.

Certain of Sun Life Financial's protection products also have product features that create interest rate exposure. If long term interest rates remain low for an extended period of time, fixed income portfolio rates may fail to support products with crediting rate guarantees and products with no-lapse guarantees. If interest rates rise rapidly, book value surrenders may occur whereby assets must be disinvested at depressed levels which may not support the surrender provision. While Sun Life

Financial has established hedging programs and its annuity and protection products typically contain surrender mitigation features, interest rate movements could have an adverse effect on Sun Life Financial's business and profitability.

Sun Life Financial also has direct exposure to interest rates as a result of the investments supporting surplus. Fluctuations in the market value of those assets could result in fluctuations in profitability.

Changes in legislation and regulations

Most of Sun Life Financial's businesses are subject to extensive regulation and supervision. Changes in laws, regulations, or government policies, or in the manner in which those laws, regulations or policies are interpreted or enforced, could have an adverse effect on Sun Life Financial's business and operations.

For example, under NAIC rules, U.S. insurance companies are entitled to credit for statutory reserves for universal life policies that are reinsured by unaccredited reinsures to the extent that those obligations are secured by letters of credit, assets held in trust or other acceptable security. Sun Life Financial provides letters of credit and assets in trust as security to support certain affiliated reinsurance transactions related to universal life policies issued by Sun Life Financial in the U.S. Changes in the NAIC rules or in Sun Life Financial's ability to purchase or renew letters of credit could require Sun Life Financial's U.S. operations to increase their NAIC statutory reserves, incur higher operating costs or reduce sales of affected products.

Sun Life Financial currently has an effective tax rate that is lower than the Canadian statutory income tax rate for corporations. This lower effective income tax rate is predominantly caused by generating earnings in jurisdictions with income tax rates lower than the Canadian income tax rate and by organizing business operations in a tax effective manner. Changes in tax legislation, regulations or treaties to disallow these arrangements could have an adverse effect on Sun Life Financial's profitability and its business and operations.

Legal, regulatory and market conduct matters

Failure to comply with laws, or to conduct Sun Life Financial's business consistent with changing regulatory or public expectations, could adversely impact Sun Life Financial's reputation. Sun Life Financial's business is based on public trust and confidence and any damage to that trust or confidence could cause customers not to buy, or to redeem, Sun Life Financial's products. Insurance and securities regulatory authorities in certain jurisdictions regularly make inquiries, hold investigations and administer market conduct examinations with respect to insurers' compliance with applicable insurance and securities laws and regulations, and certain regulatory authorities, industry groups and rating agencies have developed initiatives regarding market conduct. In recent years, financial services regulators in many of the countries in which Sun Life Financial operates have raised issues and commenced regulatory inquiries, investigations and proceedings with respect to current and past business practices in the financial services industry, and have given greater emphasis to the investigation of those practices, including investigations into the payment of commissions and other fees to intermediaries, market timing and late trading in investment funds, sales of mortgage endowment and pension products in the United Kingdom, 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 and business practices between brokers and insurance companies. Current and future investigations, examinations and regulatory settlements and civil actions arising out of such matters could adversely affect Sun Life Financial's reputation and its profitability and future financial results. In addition, there is heightened litigation risk generally arising from the conduct of business in certain jurisdictions.

Product design and pricing

Sun Life Financial is subject to various risks arising from the design and pricing of its insurance products, including adverse deviations from assumptions used in the pricing of products as a result of uncertainty concerning future investment yields, mortality and morbidity experience, policyholder behaviour, sales levels, expenses and taxes. Although some of Sun Life Financial's products permit it to increase premiums or adjust other charges and credits during the life of the policy or contract,

the adjustments permitted under the terms of the policies or contracts may not be sufficient to maintain profitability, and therefore could have an adverse effect on Sun Life Financial's results of operations.

Credit risk

Sun Life Financial is 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 debt instruments. Although Sun Life Financial holds predominantly investment-grade bonds and first mortgages, and believes that it maintains prudent issuer diversification, a major economic downturn could result in issuer defaults, potentially leading to increased provisions for losses.

Insurance risk – mortality, morbidity and longevity

The Company is exposed to the catastrophic risk of natural or man-made disasters such as earthquakes or acts of terrorism, as well as pandemics such as those which could arise from the avian flu. These could result in a significant increase in mortality and morbidity experience above the assumptions used in pricing of products, which could have a material adverse effect on the Company's operations and profitability.

Many of the Company's wealth management products provide benefits over the policyholder's continued lifetime. Higher than expected ongoing improvements in policyholder life expectancy could therefore increase the ultimate cost of providing these benefits, with a resulting adverse effect on the Company's results of operations.

Operations in Asia

The future success of the Company's businesses in Asia depends in large part on Sun Life Financial's ability to compete in disparate markets. Among other things, this requires appropriate resources, skills and organization to execute the business strategy. The risks include the availability, depth and retention of resources required for operations, succession planning and project implementation. Competition for talented and skilled employees and executives with local experience may limit Sun Life Financial's potential to grow its business in Asia as quickly as planned. In addition, regulations are evolving in many markets in Asia and the risk associated with changing regulations is consequently higher.

Sun Life Financial's joint venture operations in India and China have risks generally associated with joint venture relationships. In particular, the allocation of control among, and continued co-operation between, the joint venture participants may be adversely affected by new or existing regulations in the markets in which the joint ventures operate. A temporary or permanent disruption to these arrangements could have an adverse effect on Sun Life Financial's results of operations.

Business continuity

Sun Life Financial's businesses are dependent on computer and Internet-enabled technology. Although Sun Life Financial has implemented and periodically tests its business continuity/crisis management plans, a sustained failure of one or more of Sun Life Financial's business systems could materially and adversely impact Sun Life Financial's business and operations, and its employees. In addition, because some of Sun Life Financial's systems interface with and are dependent on third party systems, Sun Life Financial could experience service interruptions if third party systems fail or experience interruptions .

Computer security and privacy

A serious security breach of Sun Life Financial's systems could damage the Company's reputation or result in liability. Sun Life Financial retains private and personal information about its customers and employees in its computer and other record retention systems, and also enables customer on-line access to certain products and services. Although Sun Life Financial has implemented extensive security measures, it may be vulnerable to physical break-ins, computer viruses, programming and/or human errors, fraud or similar disruptive problems. Such events could have an adverse effect on Sun Life Financial's results of operations and reputation.

Reinsurance markets

As part of its overall risk management strategy, Sun Life Financial purchases reinsurance for certain risks underwritten by its various insurance businesses. Market conditions beyond Sun Life Financial's control determine the availability and cost of this reinsurance protection. Accordingly, Sun Life Financial's insurance businesses may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms which could adversely affect the Company's ability to write future business.

Reinsurance does not relieve Sun Life Financial's insurance businesses of their direct liability to policyholders. Accordingly, Sun Life Financial bears credit risk with respect to its reinsurers. A reinsurer's insolvency, inability or unwillingness to make payments under the terms of its reinsurance agreement could have an adverse effect on Sun Life Financial' s business.

Distribution channels

Sun Life Financial distributes its products through a variety of distribution channels, including direct sales agents, managing general agents, independent general agents, financial intermediaries, broker-dealers, banks, pension and benefits consultants and other third party marketing organizations. Sun Life Financial competes with other financial institutions to attract and retain these intermediaries and agents on the basis of products, compensation, support services and financial position. Sun Life Financial's sales and results of operations and financial strength ratings could be materially adversely affected if it is unsuccessful in attracting and retaining these intermediaries and agents. In addition, rapid growth in the distribution channel s may heighten the risks of market conduct issues (as outlined in this AIF under the heading *"Legal, regulatory and market conduct matters"*) and channel conflicts or overlaps

Dependence on third party relationships

Sun Life Financial has outsourced certain business functions to third parties in certain jurisdictions, including Canada and the United Kingdom. An interruption in Sun Life Financial's continuing relationship with certain of these third parties, the impairment of their reputation or creditworthiness, or failure to provide contracted services could materially and adversely affect Sun Life Financial's ability to market or service its products. There can be no assurance that Sun Life Financial would be able to find alternate sources for these outsourcing arrangements in a timely manner. Additional information concerning the Company's outsourcing arrangements is provided in SLF Inc.'s 2006 MD&A under the heading "*Financial position and liquidity – commitments, guarantees, contingencies and reinsurance matters* ".

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, Sun Life Financial generally maintains the currency profile of its assets so as to match the currency of 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 currencies are translated into Canadian dollars. Strengthening of the Canadian dollar against the currencies of the countries in which it operates could have an adverse effect on Sun Life Financial's reported net income.

Competition

The businesses in which Sun Life Financial engages are highly competitive, with several factors affecting Sun Life Financial's ability to sell its products, including price and yields offered, financial strength ratings, range of product lines and product quality, brand strength and name recognition, investment management performance, historical dividend levels and the ability to provide value-added services to distributors and customers. 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. 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 GAAP. Some of the Company's competitors report on different accounting bases, such as U.S. GAAP. Because of differences in the emergence 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 Canada, the federal government is 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 o n 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 increasing the number and financial strength of potential competitors.

Financial strength and credit ratings

Financial strength ratings represent the opinions of rating agencies regarding the financial ability of an insurance company to meet its obligations under insurance policies. The financial strength ratings of SLF Inc.'s insurance company subsidiaries are a key competitive factor in marketing products and in attracting and retaining agents and distributors. Should the financial strength rating of one or more of those subsidiaries decline, Sun Life Financial's competitive position could be negatively impacted.

In addition, rating agencies also publish credit ratings for certain of the Sun Life Financial companies, which have an impact on the interest rates paid by those companies on borrowed funds. A downgrade in credit ratings could increase Sun Life Financial's cost of borrowing and have an adverse effect on its financial condition and results of operations.

Merger & acquisition transactions

Sun Life Financial regularly explores opportunities to acquire other financial services companies or parts of their businesses. The success of these acquisitions depends on a number of factors and there is no assurance that Sun Life Financial will achieve its financial or strategic objectives or anticipated cost savings following an acquisition. In particular, Sun Life Financial could experience client losses, surrenders or withdrawals materially different from those it anticipated, as well as difficulties in integrating and realizing the projected results of acquisitions and restructurings and managing the litigation and regulatory matters to which acquired entities are party.

Ability to attract employees

Competition for qualified employees, including executives, is intense both in the financial services industry and non-financial industries. If Sun Life Financial is unable to retain and attract qualified employees and executives, the results of its operations and financial condition, including its competitive position, could be adversely affected.

Investment performance

The performance of Sun Life Financial's investment portfolios depends in part upon the level of and changes in interest rates, equity prices, real estate values, the performance of the economy in general, the performance of the specific obligors included in these portfolios and other factors that are beyond Sun Life Financial's control. Changes in these factors can affect Sun Life Financial's net investment income in any period, and such changes could be substantial.

In addition, poor investment performance by Sun Life Financial's wealth management operations could adversely affect net sales or reduce the level of assets under management, potentially negatively impacting Sun Life Financial's revenues and income. Investment performance, along with achieving and maintaining superior distribution and client services, is critical to the success of Sun Life Financial's wealth management businesses.

Legal and regulatory proceedings

Like other financial institutions, over the past several years, certain of SLF Inc.'s U.S. subsidiaries have received inquiries including requests for information and subpoenas from, and have entered into regulatory settlements with various U.S. regulators. Certain of SLF Inc.'s U.S. subsidiaries are continuing to cooperate with U.S. regulatory authorities in their ongoing investigations, which may result in regulatory proceedings or settlements and civil actions.

As previously disclosed, SLF Inc. and MFS have been named as defendants in multiple lawsuits in U.S. federal and state courts (commenced as class actions or individual actions, as ERISA actions, or as derivative actions), relating to the matters that led to the settlements between MFS and U.S. regulators in 2004. These lawsuits generally allege that some or all of the defendants (i) permitted or acquiesced in market timing and/or late trading in some of the MFS funds and, inadequately disclosed MFS's internal policies concerning market timing and such matters, (ii) received excessive compensation as fiduciaries to the MFS funds, or (iii) permitted or acquiesced in the improper use of fund assets by MFS to support the distribution of MFS funds shares and inadequately disclosed MFS's use of fund assets in this manner. MFS continues to defend these actions. While it is not possible to predict the resolution of these actions, the Company believes, based on the information currently available to it, that the ultimate resolution of these actions will not be material to its consolidated financial position or results of operations. Additional information concerning these actions is provided in Note 20 to SLF Inc.'s 2006 Consolidated Financial Statements.

In addition, Sun Life Financial Inc. and its subsidiaries are engaged in other legal actions, which are not expected to have a material adverse effect, individually or in the aggregate, on the consolidated financial position or results of operations of Sun Life Financial Inc.

Additional information

Additional information including Directors' and officers' remuneration and indebtedness, principal holders of SLF Inc.'s securities, securities authorized for issuance under equity compensation plans and interests of informed persons in material transactions, if applicable, is contained in SLF Inc.'s information circular for its most recent annual meeting of security holders that involved the election of Directors. Additional financial information is provided in SLF Inc.'s MD&A and Consolidated Financial Statements for its most recently completed financial year.

When SLF Inc. is in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities, SLF Inc. will provide to any person one copy of each of the following documents (Disclosure Documents) upon request:

(i) this AIF and any document or the pertinent pages of any document incorporated by reference herein,

(ii) 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 Disclosure Documents and other additional information related to SLF Inc. are accessible at www.sunlife.com.

APPENDIX A - Charter of the Audit and Conduct Review Committee

Purpose

The Audit and Conduct Review Committee is a standing committee of the Board of Directors whose primary functions are to assist the Board of Directors with its oversight role with respect to:

1. The integrity of financial statements and information provided to shareholders and others.
2. The Corporation's compliance with financial regulatory requirements.
3. The adequacy and effectiveness of the internal control environment implemented and maintained by management.
4. The qualifications, independence and performance of the External Auditor who is accountable to the Audit and Conduct Review Committee, the Board of Directors and the shareholders.

Membership

The Audit and Conduct Review Committee is comprised of not less than three Directors, including a Committee Chair, appointed by the Board of Directors on an annual basis following each annual meeting.

Each member of the Committee shall be independent as defined in the Director Independence Policy and financially literate. In the Board of Director's judgment, a member of the Audit and Conduct Committee is financially literate if, after seeking and receiving any explanations or information from senior financial management of the Corporation or the auditors of the Corporation that the member requires, the member is able to read and understand the consolidated financial statements of the Corporation to the extent sufficient to be able to intelligently ask, and to evaluate the answers to, probing questions about the material aspects of those financial statements.

Any member of the Committee may be removed or replaced at any time by the Board of Directors and the Board of Directors shall fill vacancies on the Committee.

Structure and Operations

A meeting of the Committee may be called at any time by the Non-Executive Chairman of the Board, by the Committee Chair or by two members of the Committee. The Committee meets as frequently as necessary, but not less than four times a year. A quorum at any meeting of the Committee shall be three members and meetings must be constituted so that resident Canadian requirements of the *Insurance Companies Act (Canada)* are met.

The External Auditor reports to the Committee, receives Notice of, and may attend all Committee meetings. The Committee holds a private session at each regularly scheduled meeting, with the External Auditor without management present and with the Chief Auditor without management or the External Auditor present. The Committee holds a private session with the Chief Actuary periodically. The Committee holds a private session at each regularly scheduled meeting of the Committee members only. The Committee, in consultation with the Non-Executive Chairman of the Board, may engage any special advisors it deems necessary to provide independent advice, at the expense of the Corporation.

On an annual basis, the Committee will review this Charter and the Forward Agenda for the Committee and, where necessary, recommend changes to the Board of Directors for approval. This Charter will be posted on the Corporation's website and the Committee will prepare a report for inclusion in the annual meeting proxy material. The Committee shall undertake and review with the Board of Directors an annual performance evaluation of the Committee.

Duties and Responsibilities of the Audit and Conduct Review Committee

1. Reviews with management and the External Auditors the interim unaudited consolidated financial statements and Management's Discussion and Analysis, including a discussion with the External Auditors of those matters required to be discussed under generally accepted auditing standards applicable to the Corporation.

2. Reviews the Corporation's earnings press releases.

3. Reviews with management and the External Auditors following completion of th e annual audit:

   a. the annual audited consolidated financial statements;
   b. the External Auditor's audit of the annual consolidated financial statements and their report;
   c. Management's Discussion and Analysis;
   d. any significant changes that were required in the external audit plan;

(e) any significant issues raised with management during the course of the audit, including any restrictions on the scope of activities or access to information; and
(f) those matters related to the conduct of the audit that are required to be discussed under generally accepted auditing standards applicable to the Corporation.

4. Receives a report from management of their quarterly and annual review of financial statements, Management's Discussion and Analysis and earnings press releases and discusses with the Chief Executive Officer and the Chief Financial Officer the certifications relating to financial disclosure and controls that those officers are required by law to file with securities regulatory authorities.
5. Assures itself that the External Auditor is satisfied that the accounting estimates and judgements made by management, and management's selection of accounting principles, reflect an appropriate application of generally accepted accounting principles.
6. Discusses with the Chief Actuary the parts of the annual audited consolidated financial statements prepared by that officer.
7. Reviews with management and the External Auditor the Corporation's principal accounting practices and policies.
8. Reviews the independence of the Chief Auditor and the External Auditor, including the requirements relating to such independence of the laws governing the Corporation and the applicable rules of stock exchanges on which the Corporation's securities are listed. At least annually, the Committee receives from and reviews with the External Auditor their written statement delineating relationships with the Corporation and, if necessary, recommends that the Board take appropriate action to satisfy itself of the External Auditors' independence and accountability to the Committee and the Board.
9. Reviews and approves the Policy Restricting the Use of External Auditors which outlines the services for which the External Auditor can be engaged and the policy regarding the employment of former employees of the External Auditor.
10. Appraises the performance of the External Auditor and recommends to the Board th e appointment or, if so determined by the Committee, the replacement of the External Auditor, subject to the approval of the shareholders.
11. Determines, reviews and approves the services to be performed by the External Auditor and the fees to be paid to the External Auditors for audit, audit-related and other services permitted by law and in accordance with the policy issued by the Board restricting the use of the External Auditor.
12. Reviews with the External Auditor and management the overall scope of the annual audit plan, quality control procedures and the resources that the External Auditor will devote to the audit.
13. Reviews with the External Auditor any regulatory investigations that pertain to the External Auditor.
14. Requires management to implement and maintain appropriate internal control procedures, and reviews, evaluates and approves the procedures.
15. Reviews management's reports on the effectiveness of Sun Life Financial's disclosure controls and procedures and its internal control over financial reporting
16. Reviews the attestation by the External Auditor on management's assessment of th e effectiveness of Sun Life Financial's internal control over financial reporting.
17. Reviews with management and the Chief Auditor:

    (a) the overall scope of the annual internal audit plan, including its coordination with the External Auditors' audit plan, and the adequacy of the resources available to the Chief Auditor; and
    (b) the effectiveness of the internal control procedures, including a report thereon received from the Chief Auditor that includes disclosure of any significant changes that were required in the internal audit plan and any significant issues raised with management during the course of the internal audit, including any restrictions on the scope of activities or access to information.

18. Reviews investments and transactions that could adversely affect the well-being of the Corporation as the External Auditors or management may bring to the attention of the Committee, and meets with the External Auditor to discuss any such investments and transactions.
19. Reviews, and discusses with the External Auditor and the Chief Actuary suchre ports and regulatory returns of the Corporation as may be specified by law.
20. Reviews matters within its mandate that are addressed in the regular examination and similar reports received from regulatory agencies.
21. Discusses the qualifications for and determines whether a member of the Committee is a financial expert and in conjunction with the Governance Committee ensures the ongoing financial literacy of Committee members.
22. Approves procedures established to handle complaints, and anonymous employee submissions, with respect to matters and concerns regarding accounting, internal control and auditing.
23. Requires management to establish procedures for complying with the related party rules contained in the Insurance Companies Act (Canada) and reviews their effectiveness.
24. Reviews the practices of the Corporation to ensure that any related party transaction that may have a material effect on the stability or solvency of the Corporation is identified.
25. Reports to the Superintendent of Financial Institutions on the procedures for complying with the related party rules.
26. Performs such other duties and exercises such other powers as may, from time to time, be assigned to or vested in the Committee by the Board, and such other functions as may be required of an audit committee by law, regulations or applicable stock exchange rules.

APPENDIX B - Policy restricting the use of external auditors

Introduction and purpose

This policy governs all proposals by the Corporation or any of its subsidiaries to engage, as a service provider, the Corporation's external auditor or any of its affiliates, related businesses or associated persons as defined in the Sarbanes-Oxley Act of 2002 (S-O Act) (collectively referred to as the External Auditor).

Scope and application

This Policy applies to SLF Canada, SLF U.S., SLF Asia, M.F.S., SLF U.K, Enterprise Services and the Corporate Office, including each of the operating subsidiaries, Business Units or other divisions within those Business Groups or U nits. This Policy does not currently apply to the Corporation's joint ventures.

Policy

The External Auditor will normally be engaged to provide audit and audit-related services, including advisory services related to the External Auditor's audit and audit-related work such as advice pertaining to internal audit, tax, actuarial valuation, risk management, and regulatory and compliance matters, subject to the prohibitions contain ed in the S-O Act a nd in any other applicable laws, regulations or rules. Prohibitions are set out in Appendix A.

Each engagement of the External Auditor to provide services will require the approval in advance of the Audit and Conduct Review Committees of Sun Life Financial Inc. and/or Sun Life Assurance Company of Canada, as applicable, and the audit committee of any affected subsidiary that is itself directly subject to the S-O Act. The Audi t and Conduct Review Committee may establish procedures regarding the approval process, which will be co-ordinated by the Corporation' s Senior Vice-President, Finance.

The Corporation and its subsidiaries will not employ or appoint as chief executive officer, president, chief financial officer, chief operating officer, general counsel, chief accounting officer, controller, director of internal audit, director of financial reporting, treasurer, appointed actuary or any equivalent position within the Corporation or subsidiary, any person who was, at any time during the previous two years, employed by the External Auditor and who provided any services to the Corporation or any subsidiary.

Personnel of the Corporation and its subsidiaries employed in the key financial reporting oversight roles described in Appendix B shall not use the External Auditor to prepare either their personal tax returns or those of their dependents.

The Corporation's Senior Vice-President, Finance is responsible for the application and interpretation of this policy, and should be consulted in any case where there is uncertainty regarding whether a proposed service is, or is not, an audit or audit-related service. He/she will revise the Appendices as required, from time to time, to reflect changes in applicable laws, regulations, rules or management roles.

Appendix A - - Prohibition on Services

The External Auditor is prohibited from providing the following services:

a) bookkeeping or other services related to the accounting records or financial statements;
b) financial information systems design and implementation;
c) appraisal or valuation services, fairness opinions, or contribution in-kind report s;
d) actuarial services;
e) internal audit outsourcing services;
f) management functions or human resources;
g) broker or dealer, investment adviser, or investment banking services;
h) legal services and expert services unrelated to the audit;
i) any service for which no fee is payable unless a specific result is obtained (contingent fees or commissions);
j) any non-audit tax services that recommend the Corporation engage in confidential transactions or aggressive tax position transactions, as defined by the U.S. Public Company Accountability Oversight Board ; and
k) any other service that governing regulators or professional bodies determine to be impermissible.

Appendix B - - Key Financial Reporting Oversight Roles

The incumbents in the following financial reporting oversight roles are not permitted to use the Corporation's external auditors to prepare either their personal tax returns or those of their dependents:

§ Chief Executive Officer
§ Chief Operating Officer
§ President
§ Executive Vice-President and Chief Financial Officer
§ Executive Vice-President and Chief Legal Officer
§ Senior Vice-President, Finance
§ Senior Vice-President and Chief Actuary
§ Vice-President and Chief Accountant
§ Vice-President and Chief Auditor
§ Vice-President, Corporate Capital
§ Vice-President, Tax
§ Assistant Vice-President, Financial Reporting Standards

The comparable positions in subsidiaries are similarly prohibited from using the Corporation's external auditors for either their own or their dependents' personal tax returns.

Exhibit 4

SUN LIFE FINANCIAL

Code of Business Conduct

Acting Ethically



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Mission, Vision and Values

Mission

To help customers achieve lifetime financial security

Vision

To be an international leader in protection and wealth management

Values

Integrity

We are committed to the highest standards of business ethics and good governance.

Engagement

We value our diverse, talented workforce and encourage, support and reward them in contributing to the full extent of their potential.

Customer Focus

We provide sound financial solutions for our customers and always work with their interests in mind.

Excellence

We pursue operational excellence through our dedicated people, our quality products and services, and our value-based risk management.

Value

We deliver value to the customers and shareholders we serve and to the communities in which we operate.

Application of the Code of Business Conduct

Does the Code apply to me?

The Sun Life Financial Code of Business Conduct sets out minimum standards of business conduct that apply to all employees (full time, part time, temporary or contract, if on payroll), officers and directors of Sun Life Financial Inc., its subsidiaries and joint venture companies, other than those Sun Life Financial subsidiaries or joint venture companies that have adopted a code of business conduct that is consistent with the spirit of this Code. Compliance with the Code is mandatory and is a condition of your employment.

It is your responsibility to read, understand and comply with the Code and any supplementary codes of business conduct that may apply to you, to ask for guidance when necessary, and to report violations.

Annual Code Acknowledgement

Each year, you will be asked to reaffirm your commitment to comply with the Code, and to provide assurance that you have complied with it over the last year, by completing the Annual Code Acknowledgement. You will also be asked to report any breaches of the Code of which you are aware (even if you previously reported them to management). You must comply with the Code whether or not you have completed the Annual Code Acknowledgement. You will be provided with training to refresh your understanding of the Code.

You must read, understand and comply with the Code.

Q. I have been hired by Sun Life Financial as a temporary employee. Am I required to complete the Annual Code Acknowledgment?

A. Yes. All employees, including temporary employees and contract employees, on Sun Life Financial's payroll system are required to complete the Annual Code Acknowledgement. This process confirms that you have complied with the Code while you have been employed by Sun Life Financial and reaffirms your commitment to do so for the remainder of your contract.

Q. Where can I find a copy of the Annual Code Acknowledgement form and how do I complete it?

A. You will receive the Annual Code Acknowledgement form in early December, and it must be completed by early January. Most employees will complete the form online but if you do not have computer access, a hard copy will be provided. Employees on leave will be asked to complete the Annual Code Acknowledgement when they return to work. Every employee must complete the Annual Code Acknowledgement.

How do I apply the Code in my business dealings?

If you encounter a situation for which the Code does not provide specific guidance, ask yourself the following questions:

- Is this fair and ethical?
- Is this legal?
- Am I confident that Sun Life Financial would not be embarrassed if this situation became public knowledge?
- Would I approve of this situation if I were a fellow employee, a customer or a shareholder?

You should be able to answer "Yes" in each case. Use your best judgment and common sense, keeping in mind that you are required to comply with both the content and spirit of the Code.

Apply the Code to situations you encounter at work.

Managers

If you are a manager you should:

- Act ethically and foster a work environment that reflects the content and the spirit of the Code;
- Train employees to act ethically in all dealings;
- Understand the Code and champion it with your team members;
- Answer employee questions about the Code or direct them to where they can find the information they need;
- Take steps to prevent breaches of the Code and to report and respond to any violations;
- Support and protect those who report breaches; and
- Report any breaches or potential breaches of the Code to your local compliance officer.

Managers, by virtue of their positions of authority, must act as ethical role models for others.

Q. Where can I obtain more information about the Code and how to apply it?

A. If you are unsure how to apply the Code in any situation:

1. Discuss the matter with your manager or a representative in Compliance, Human Resources, Law or Public and Corporate Affairs identified in the Contact Lists.
2. Review additional information about the Sun Life Financial Code of Business Conduct site on The Source (if you have access to the Company intranet).
3. E-mail: SLF_Code_of_Business_Conduct@sunlife.com.

Q. My manager asked me to do something that I think may violate the Code. I'm not comfortable talking to him about it. How should I go about reporting this?

A. Contact your local compliance officer who can discuss the Code with you and address your concerns about the possible breach. If this does not resolve the situation contact the person in the Law Department primarily responsible for advising your business unit or function, or make a report using the Employee Ethics Hotline.

Other obligations

As a result of your specific position within Sun Life Financial or your professional background, you may be required to comply with other obligations, such as:

- Supplementary codes of business conduct or guidelines relating to specific activities, companies or business units within Sun Life Financial;
- Rules of conduct governing members of your professional group or association; and
- Sun Life Financial policies governing specific situations you may encounter in your work.

Other codes/policies

At the end of the Code is a listing of supplementary codes and policies that pertain to the various sections of the Code. This list is subject to change from time to time.

If you have any questions about whether a supplementary code of business conduct or policy applies to you, please talk to your manager.

Complying with the law

At a minimum, behaving ethically requires you to take all reasonable steps to understand and comply with all laws, rules and regulations applicable to your job. It also requires you to work to the spirit of the law.

You should always comply with the most restrictive policy or law in situations where a supplemental policy and/or law appears to conflict with the Code. Please advise your manager, local compliance officer, or the person in the Law Department primarily responsible for advising your business unit or function of the conflict.

Acting ethically requires you to comply with the laws, rules, and regulations applicable to your job and to work to the spirit of the law.

Q. I work in an area of Sun Life Financial where many different laws apply to the work I do. How can I be sure that I won't violate some technical aspect of one of these laws?

A. Use your common sense and always ask questions when you are unsure. You need to make every effort to understand and follow the laws governing your job. The person in the Law Department primarily responsible for advising your business unit or function will be familiar with the laws applicable to your work. Do not hesitate to contact him or her or your manager if you need clarification.

Fraudulent activities

You may not participate in any type of dishonest or fraudulent scheme or conduct that directly or indirectly may impact Sun Life Financial.

Sun Life Financial has internal controls for reporting and investigating fraud (or suspected fraud) committed by employees and by outsiders against Sun Life Financial, its employees, customers or agents.

You must report any suspected fraudulent acts or omissions immediately to the Fraud Reporting Officer in your Business Group. Ask your manager or refer to the Contact Lists on The Source for the name of the Fraud Reporting Officer in your area.

Report any suspected fraud immediately.

A fraudulent act is any dishonest act intended to deprive or mislead for personal or corporate gain. Examples of fraudulent acts and omissions include, but are not limited to:

- Forging or altering any document including a cheque, bank draft, or other financial instrument, or account belonging to Sun Life Financial or its customers;
- Improperly handling or reporting money or financial transactions;
- Deliberately misleading customers with the intention of depriving them of money or other assets;
- Intentionally misrepresenting financial accounts or reports, or failing to disclose such misrepresentations;
- Identity theft-deliberately misusing (directly or indirectly) a customers or employee's personal information for any purpose including depriving him or her of money or other assets; and
- Any fraud, material or not, that involves management or other employees who have significant roles in Sun Life Financial's internal controls.

Q. I am concerned that my colleague may be committing fraud against Sun Life Financial, but I am not really sure. What should I do?

A. Call your local Fraud Reporting Officer as required by the Sun Life Financial Fraud Reporting and Investigation Policy to report your concern. All information will be handled discreetly during the investigation to the extent permitted by policy or law. If we can find no independent corroboration of your concern, no action will be taker against your colleague. No action will be taken against you for your report. Even if your colleague suspects that you have reported him o her, Sun Life Financial strictly prohibits any form of retaliation against you for reporting your concern in good faith.

Anti-money laundering/Anti-terrorist financing

Sun Life Financial is committed to complying with laws designed to deter and detect money laundering and terrorist financing. Money laundering is the act of turning “dirty money” into “clean money” through a series of financial transactions so that the criminal origin of the funds becomes difficult to trace. Terrorist financing focuses on the destination and use of funds that may come from legitimate or criminal sources. Under no circumstances should you participate in any money laundering or terrorist financing activity.

You must actively protect Sun Life Financial’s products and services from being used for money laundering or for financing terrorist or other criminal activity.

Detecting money laundering and terrorist financing activity requires us to properly identify and authenticate our customers. You should report any suspicious customer deposits, withdrawals or other activity to your manager and your Money Laundering Reporting Officer (MLRO). Failure to do so may expose Sun Life Financial to the risk of legal sanctions, financial penalties and lasting damage to our reputation. Ask your manager or refer to the Contact Lists for the name of the MLRO in your area.

Each Sun Life Financial business entity has developed procedures and controls in compliance with the Sun Life Financial enterprise-wide Anti-Money Laundering and Suppression of Terrorism policies as well as local laws, regulations and guidelines in the countries in which it operates. Speak to your manager or your MLRO to ensure you understand your obligations.

Q. What are some signs of money laundering?

A. Pay close attention to customer transaction requests or behaviour that seems out of the ordinary, such as:

- admissions or statements about involvement in criminal activities;
- reluctance to have information sent to a home address;
- repeatedly using an address but frequently changing the name attached to it;
- keen interest in internal systems, controls and policies;
- providing inconsistent information about a transaction;
- greater interest in liquidity than other features of a product;
- giving an incorrect telephone number or disconnecting their telephone service just after a transaction;
- the use of aliases and a variety of similar but different addresses;
- reluctance to present proper ID for identity verification;
- refusing to disclose beneficial owners; and
- offers of money for providing services that appear unusual or suspicious.

Consult the Anti-Money Laundering Policy and Suppression of Terrorism Policy for more information.

Fairness in the workplace

Sun Life Financial is committed to fairness in the workplace. We recognize that a diverse workforce allows us to serve our customers most effectively, and will not tolerate unlawful discrimination, harassment or violence in the workplace.

Specifically, you may not unlawfully discriminate against co-workers, customers or anyone else you encounter in the course of your work on the basis of their race, colour, religion, sex, sexual orientation, national origin, citizenship, creed, age, marital status, family status, disability, or other grounds included in human rights legislation. You must not engage in threatening, intimidating or violent acts against co-workers, customers or anyone else you encounter in your work. Sexual or other harassment, or offensive behaviour such as verbal abuse, or unnecessary physical contact, are also prohibited.

You must treat your co-workers, customers and others with respect and dignity.

Q. I'm looking to fill a senior position on my team from a pool of qualified candidates. May I offer the job to a man instead of a woman if I believe the woman is likely to start a family soon?

A. No, this would be a violation of Sun Life Financial's policy. All employment-related decisions must be based on job-related criteria, skills, and performance. Contact your local Human Resources Department for more information, or check local human resources policies.

Q. My teammates sometimes tease me about my national origin. I don't think they mean any harm by it. Should I report them?

A. Yes. This behaviour violates the Code. You can advise the employees that their comments are not acceptable if you feel comfortable doing so. You should also promptly report this to your manager, to your local Human Resources Department or to the Law Department. A report can also be made using the Sun Life Financial Employee Ethics Hotline.

Q. I witnessed my teammate being threatened by another Sun Life Financial employee. They were scared and did not want to report the incident. Do I need to report this?

A. Yes. Report the situation to your manager. If you are uncomfortable doing this, call your local Human Resources Department or submit a report to the Employee Ethics Hotline. Sun Life Financial investigates all reported acts of threats or violence.

Avoiding conflicts of interest

Many situations could give rise to a potential conflict of interest, or to the appearance of a conflict. Any action you take on behalf of Sun Life Financial must not be influenced by the possibility of gain for yourself or for anyone personally associated with you. It is also important to avoid any appearance of a conflict.

This section of the Code sets out some of the more common conflicts, but it is not exhaustive. If you have questions, speak to your manager or local compliance officer.

You must avoid any conflict or appearance of conflict between your personal interests and those of Sun Life Financial.

Q. May I hire my brother to do some contract work for Sun Life Financial if his rates are the best rates available?

A. No. Sun Life Financial generally prohibits business dealings with employees' family members. Regardless of your brother's rates, Sun Life Financial will not hire him to perform services under a contract if he will be working under your supervision or if you have any influence over the decision to employ him.

Q. My husband has just become an executive sales manager for a company that services the computers in my department. Do I need to tell anyone about this?

A. Yes. One of your husband's competitors or a fellow Sun Life Financial employee could claim that your husband is getting Sun Life Financial's business because you are a Sun Life Financial employee. You should ensure that you are independent, and are seen to be independent, from any business organization that has a contractual relationship to provide goods or services to Sun Life Financial. You should notify your manager and make sure you are not involved in any decisions regarding your husband's company.

Trading in securities

When you invest your own money in the market you must ensure that the decisions you make are not based on non-public information you have learned as a result of your employment or relationship with Sun Life Financial. You may not trade in Sun Life Financial securities, or in any securities of another company, no matter how small or large the trade, if this decision is based on material information that is not generally available to the public. You also may not pass this information on to others.

"Material information" is any undisclosed information that a reasonable investor would consider important in deciding whether to buy, hold or sell the securities of Sun Life Financial. There are also certain types of information that may become material over time (e.g., a proposed business transaction). You should speak to the person in the Law Department responsible for advising your business unit or function if you have any questions.

You may be subject to additional requirements depending on your specific employment at Sun Life Financial. These may include pre-clearing your personal investments, trading public company securities only during specified periods and filing insider-trading reports.

You must not buy or sell securities of Sun Life Financial or another publicly traded company if you possess "material" non-public information. In many countries, trading or tipping someone else who trades based on this information also violates securities laws.

Q. I overheard in the elevator that Sun Life Financial is planning to acquire XYZ, a large public company. May I trade in the securities of the other company?

A. No, and you also must not trade in the securities of Sun Life Financial. The prohibition on trading is not affected by the manner in which you obtained details. Please refer to the Insider Trading Policy for information.

Q. I am part of a team that supports the release of our quarterly financia results. In the days leading up to the release of the results, I see draf documents discussing the results before they are approved for release. Is it okay for me to discuss this information in general with people outside of Sun Life Financial if I don't refer to specific financia numbers?

A. No. This information is not yet public and should be treated as confidential proprietary Sun Life Financial information. In addition, if you disclose any material information you may be breaking securities laws.

Gifts, favours, benefits or entertainment

It is possible that you may be offered, or may provide, gifts, favours, benefits or entertainment in the course of your work.

You should not accept gifts, favours, benefits or entertainment that could in any way influence, or appear to influence, your ability to make objective business decisions. You should not offer gifts, favours, benefits or entertainment that might be perceived as inappropriately influencing another company's business dealings with Sun Life Financial. Consider the following criteria when accepting or offering gifts, favours, benefits or entertainment:

- the value involved is nominal (check for local policies or speak to your manager for guidance on what constitutes nominal in your Business Group as this can vary);
- it occurs infrequently;
- the exchange creates no sense of obligation on either party; and
- it would not embarrass Sun Life Financial or the recipient, if publicly disclosed.

Talk to your manager if you are unsure about accepting or giving gifts, favours, benefits or entertainment.

These considerations apply equally if gifts, favours, benefits or entertainment are provided to immediate family members of employees, where the motive could be perceived as attempting to influence the employee.

Depending on your job you may also have an obligation to report gifts, favours, benefits and entertainment over prescribed thresholds. For certain types of gifts, favours, benefits and entertainment there may also be a pre-approval requirement.

You may not give gifts, favours, benefits or entertainment of any value to government officials without specific approval from the senior compliance officer in your Business Group.

Conduct that directly or indirectly involves receiving or providing a bribe, payoff or kickback is prohibited.

Unless specifically provided under the terms of your employment or engagement you may not receive a commission or other compensation related to the sale of any product or service of Sun Life Financial.

Q. I work in strategic sourcing at Sun Life Financial. I recently received a call from a potential supplier offering me the use of his luxury condominium. He indicated that it would not be in use at the time and that it would be a shame to have it empty. Should I accept the invitation?

A. No. The supplier's offer is too generous. You should decline the offer because it may influence your decision as to whether to grant an order to the supplier or, at the very least, it could appear to influence your decision.

Q. I'm a communications consultant in a business unit and I've been hiring outside graphic design firms to assist me with projects. These firms usually send me a bottle of wine when a big project wraps up. I believe it's a fairly common practice. Am I allowed to accept it?

A. Yes. The gift is provided infrequently and the value is nominal. If however there were several gifts from the same firm you would need to consider if a conflict of interest exists. Speak to your manager if you have any questions.

Engaging in outside activities or employment

We encourage you to participate in your community by being involved with outside organizations. There is also nothing wrong with having another job if this is not prohibited in your employment arrangements with Sun Life Financial and does not create, or appear to create, a conflict of interest. However, your activity or other job should not interfere with your responsibilities with Sun Life Financial or your commitment and attention to those responsibilities.

You may not engage in any work of any type for any organization that competes with or has a business relationship with Sun Life Financial, without your manager's approval. This includes serving as a director, trustee, partner, employee, consultant or agent.

You should not be identified with Sun Life Financial in the course of outside activities, unless this has been specifically authorized in advance by Sun Life Financial. Consult your local Human Resources Department or the person in the Law Department primarily responsible for advising your business unit or function, who will arrange to seek the appropriate approval.

You must not serve another organization if there is or appears to be a conflict of interest with Sun Life Financial or if the demands interfere with your responsibilities at Sun Life Financial.

Q. May I work for another company if the hours don't conflict with when I'm required to work at Sun Life Financial?

A. That depends. You may not take on another job that creates a conflict of interest with your position at Sun Life Financial. A second job must be kept completely separate from your position at Sun Life Financial and must not interfere with your responsibilities and performance as a Sun Life Financial employee.

Q. May I accept an appointment to the board of directors of a company that occasionally supplies services to Sun Life Financial business units?

A. You must consult the person in the Law Department primarily responsible for advising your business unit or function to determine whether a conflict of interest exists. If you do join the other company's board, you are obligated to protect Sun Life Financial's confidential information and must not vote on any board issues related to doing business with Sun Life Financial.

Service on boards

You should consult with the Law Department before you join the board of directors of another company. Consultation is not required for positions with charities, non-profit organizations, condominiums or family businesses.

Before you accept an appointment to the board or a committee of any organization whose interests may conflict with Sun Life Financial's interests, or to the board of any publicly traded company, you must receive written approval from the General Counsel in your Business Group.

Serving as a director for other companies, government agencies, and organizations may create a conflict of interest.

You do not need Sun Life Financial's approval to serve on boards of charitable organizations, condominiums or non-profit organizations, or in family businesses that have no relation to Sun Life Financial or its businesses, unless there is an actual or possible conflict of interest. If you hold a position with a charitable or non-profit organization and you speak publicly for it, you should ensure that you are seen as speaking on behalf of the organization or as an individual, and not on behalf of Sun Life Financial.

Engaging in political or charitable activity

Sun Life Financial's funds, goods or services must not be used as contributions to, or for the benefit of, political parties or their candidates, except as specifically authorized in advance and where legally permitted. Please direct this type of request to Public and Corporate Affairs, which will arrange to seek appropriate approval. Sun Life Financial's facilities may not be used by political candidates, or by their campaigns.

Sun Life Financial has a process for dealing with charitable and philanthropic spending. Please direct these requests to those responsible for overseeing charitable donations in your jurisdiction or to Public and Corporate Affairs.

You need to consult with Public and Corporate Affairs before using Sun Life Financial assets for political or charitable purposes.

Q. A friend of mine is running for office. May I take time off to assist her political campaign?

A. Yes, as long as arrangements are made to meet business needs in your absence. You may use vacation time or unpaid absence days to support political activities. Assisting in a political campaign does not qualify as a paid absence. For more information speak with your manager or your local Human Resources Department.

Q. I volunteer for a local charity. May I use my Sun Life Financial computer to send out a monthly e-newsletter to supporters of the charity?

A. It's great that you are getting involved in community activities but you need to consult with Public and Corporate Affairs before using Sun Life Financial assets for political or charitable purposes.

Personal relationships

Sun Life Financial's policy is to employ the most qualified individuals in all positions.

Relatives of Sun Life Financial employees are considered on the same basis as other candidates subject to specific restrictions intended to prevent conflicts of interest, perceptions of conflict of interest, or favouritism.

A relative is defined as:

- parent (natural or in-law);
- spouse (legal, common-law or other domestic partner);
- son or daughter (natural, step children or in-laws);
- brother or sister (natural, step or in-law); or
- other close personal relationship if it is deemed that the relationship may impede proper business practices and objective decision making.

There must not be a direct or indirect reporting relationship between relatives, regardless of the number of intervening management layers. Relatives must not be employed in any working arrangement, whether within the same department or otherwise, in which a reasonable potential for a conflict of interest exists.

Talk to your manager before you hire or engage a family member or their business to provide goods or services to Sun Life Financial to ensure there is no conflict.

Q. I work in one of the accounting departments of Sun Life Financial. I have an accounting project that my son, who has just completed his accounting certificate, could easily complete. May I hire him under my supervision?

A. No. Although your son may be qualified for the position, hiring him would be a conflict of interest if he will be working under your supervision or if you have any influence over the decision to employ him. Consult the Employment of Relatives Policy or contact your local Human Resources Department for more information.

Dealing with information and assets

Keeping information confidential

All information about Sun Life Financial and its businesses is confidential and must not be disclosed to anyone outside Sun Life Financial, including family and friends, or to Sun Life Financial employees unless they need to know the information to carry out their employment.

You must not publish in external journals/publications or make presentations at industry/trade conferences unless your manager approves and, if applicable, your article or presentation has been approved for external release in accordance with your local publications review process.

You must not make personal comments or share information or opinions about Sun Life Financial or its businesses on your personal Internet home page or web log ("blog"), any Internet chat room, or other similar public forum.

You are responsible for protecting confidential information against theft, loss, unauthorized access, disclosure, destruction or misuse.

Q. Sun Life Financial recently hired an executive from another financial services company. In his role at our competitor he had access to important confidential and proprietary information that would be quite helpful. May we ask him to share this information?

A. No. The new employee has an obligation to protect his former company's confidential and proprietary information just as you would be expected to protect the confidential information of Sun Life Financial if you were to leave the Company.

Q. Are there certain issues I need to be careful about discussing in trade association and industry meetings?

A. Trade association members are also our competitors. If you are appointed to represent Sun Life Financial in a trade association or other organization, your contributions must respect the confidentiality of Sun Life Financial's information. Consult with the person in the Law Department primarily responsible for advising your business unit or function, or Public and Corporate Affairs for more information.

Using technology appropriately

The Internet, our intranets and e-mail are increasingly important business resources and provide unprecedented access to information. Unfortunately this technology can be used inappropriately.

Sun Life Financial's electronic communications systems are Sun Life Financial's property and should be used primarily for Sun Life Financial's business purposes. Incidental appropriate personal use is permitted provided it does not interfere with your business activity or Sun Life Financial's business applications.

To monitor personal use, certain employees are authorized to check individual activity periodically. You should not expect that any of your e-mail or Internet communications are private.

You should use the Internet, intranets, and telephones primarily for business purposes while you are at work. Incidental appropriate personal use is allowed as long as it does not interfere with your business responsibilities.

Q. I occasionally receive humorous e-mails at my Sun Life Financial address. They are sent to me by people outside the Company without my consent. Some of them could be offensive and I worry I may have I breached the Code simply by reading the e-mail?

A. No, but you should ask these people not to send you any more of these e-mails. It is not appropriate for you to receive or send jokes that are potentially offensive to others. You need to be aware that e-mail is not private and may be monitored. E-mail is stored on Sun Life Financial servers and networks. You are responsible for taking reasonable steps to ensure that the e-mails you send and receive do not violate the Internet/E-communication Access and Use Policy.

Q. My friend gave me software that would be very helpful to me in preparing a presentation for an upcoming sales conference. Am I allowed to install it on my Sun Life Financial computer?

A. No. It is inappropriate to download or exchange any type of software on Sun Life Financial's equipment. Consult the Internet/E-communication Access and Use Policy for more information.

Using technology appropriately (cont'd)

When using Sun Life Financial electronic communications systems:

- Be careful when using e-mail and avoid careless, exaggerated or inaccurate e-mail statements that could be misunderstood or used against you or Sun Life Financial in a legal proceeding. Remember – if Sun Life Financial becomes involved in litigation or an investigation, your e-mails may have to be turned over to third parties. E-mail can be retrieved even after you have deleted it from your in-box. Before you hit "send", reread.
- You must have the permission of your IT department or manager to use Instant Messaging (IM) at work.
- Accessing, downloading and distributing obscene and offensive material of any kind is prohibited.
- Do not compromise our network security by either installing or using peer-to-peer (P2P) or other similar types of file sharing applications that allow you to download music, video clips and/or image files.
- Do not share your computer user IDs and passwords. You will be responsible for inappropriate activity taken on accounts or equipment where confidential password access is required.

Q. Is it okay for me to download music from the Internet to my Sun Life Financial computer.

A. No, this is not appropriate for many reasons. Copyrightable material must not be downloaded without the consent of the material's owner or publisher. Also, this could expose our network to viruses.

Q. In addition to my job at Sun Life Financial I've been running my own web-based business. Is it okay for me to use my Sun Life Financial laptop and Internet access to check on my business from home when I'm not required to be working for Sun Life Financial?

A. No. You must not use Sun Life Financial's equipment and resources for your own business. The Internet/ E-communication Access and Use Policy permits only incidental personal use provided it does not interfere with your business responsibilities, and provided it complies with all rules set out in this Code and other applicable Sun Life Financial policies.

Using and safeguarding Company assets

You must take reasonable steps to protect assets owned by or entrusted to Sun Life Financial against loss, theft, damage and misuse.

Do not remove furnishings, equipment, supplies, files or other information from Sun Life Financial's premises without authorization. If you are authorized to work at home or off-site, and have Company assets in your custody, you are expected to keep those assets safe.

You must be careful not to:

- breach any copyright laws or regulations when making copies of documents or software;
- reveal Sun Life Financial confidential information; and
- permit others to use Sun Life Financial's assets, such as its trademarks, without appropriate consent.

You may only use Sun Life Financial's assets for legitimate business purposes, and are required to use good judgment in spending Company funds.

Expenses

You may only ask to be reimbursed for legitimate and reasonable expenses related to Sun Life Financial business activities. You must ensure expenses are documented and approved in keeping with applicable expense reimbursement policies.

Personal communications

Do not use Sun Life Financial letterhead, envelopes, fax cover sheets, or other communication materials containing Sun Life Financial's name, logo or trademark for your personal communications. You may not suggest in any way that you are speaking on behalf of Sun Life Financial or in your position as a Sun Life Financial employee in your personal communications.

Maintaining books and records

Sun Life Financial is required to maintain accurate and reliable records to meet its legal and financial obligations and to manage its affairs. Sun Life Financial's books and records should reflect accurately all business transactions. Undisclosed or unrecorded revenues, expenses, assets or liabilities are prohibited.

In particular, if you are responsible for accounting or record-keeping, you must be diligent in enforcing proper practices. You may not alter, conceal or falsify any document or record.

You must ensure that your accounting and financial records meet the highest standards.

Q. The records retention procedure in my area provides that certain types of documents need to be retained only for a set number of years. How do these procedures apply if a document might be relevant to a suspected violation of law or an investigation?

A. If a violation of law is suspected or an investigation is imminent, you must retain all documents relating to the suspected violation or investigation. For more information consult the records retention procedure adopted by your business unit or consult the person in the Law Department primarily responsible for advising your business unit or function.

Q. I regularly clean out my e-mail inbox. Are there any rules as to what messages should be kept and which ones should be deleted?

A. The E-mail Retention Policy provides retention information for e-mail and attachments. You can also check your local records retention procedure for more information.

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Maintaining privacy

Respecting our customers' and employees' privacy is critical to building strong business relationships. We accumulate a considerable amount of information about customers and employees. We have an obligation to limit the collection, access, use and disclosure of this information as outlined in the Sun Life Financial Global Privacy Commitment.

Familiarize yourself with the Global Privacy Commitment and any local privacy policies and laws so you understand your obligations whenever you come in contact with employee and customer information. You should collect, use or disclose personal information only with the knowledge and permission of the person to whom it relates unless otherwise permitted by local laws. In certain jurisdictions, our customers have the right to ask if we hold any personal information about them and, if so, to review it. They may also have the right to know how we collected the information, how we use it, and to whom we have disclosed it.

You must respect and maintain the confidentiality of our employees' personal information such as salaries, performance reviews or disabilities. You must not share this information with anyone unless it is directly related to performing your job.

Personal information may only be used for the purposes for which it was originally collected, unless otherwise permitted by local laws or we are authorized to use it for another purpose. In addition, access to personal information within Sun Life Financial generally is restricted to those employees who have a legitimate business reason to access it. Sun Life Financial may communicate personal information to its agents and service providers as permitted by local law.

You must protect personal information about Sun Life Financial customers and employees.

Q. You are a call centre employee and receive a call from someone asking whether their former spouse (our client) has removed him or her as the beneficiary of their former spouse's policy. Should you answer his or her questions?

A. No. All policyholder, customer and employee information is to be kept confidential. Our client is the policyholder not the beneficiary, and it is only the policyholder who can grant permission to share his or her confidential information.

Dealing with other people and organizations

Acting fairly and professionally

Our reputation is built on our daily interaction with our customers, our shareholders and the public. You can build the value of Sun Life Financial by meeting the highest standards of professional conduct.

Act fairly and professionally when dealing with our customers, suppliers and competitors.

Competing fairly

Sun Life Financial is committed to conducting its business in compliance with all competition laws, which are also sometimes referred to as antitrust laws.

Antitrust or competition laws prohibit a wide range of illegal activities, including sharing information and entering into agreements with customers or competitors in a way that limits competition. You must refrain from discussing with outsiders strategic information on topics such as:

- pricing;
- product and service development; or
- customer lists.

You may compare our products and services with those of our competitors, but do it fairly. Sun Life Financial does not tolerate unfair business tactics such as bribery and espionage.

Q. What are acceptable methods to obtain information about our competitors?

A. Information obtained about competitors must be publicly available information such as annual reports, expert analyses, press releases, the Internet, trade journals, and so on.

Q. At a recent meeting of industry professionals an attendee representing another company asked me if there would be any interest on the part of Sun Life Financial in entering into a secret agreement not to compete against each other in certain markets. He explained this would put a lot of pressure on a mutual competitor of ours. I told him it didn't sound ethical to me and avoided conversations with him for the rest of the event. Do I need to report this to someone?

A. Yes. The proposal was in violation of competition law and you must report it to the person in the Law Department primarily responsible for advising your business unit or function.

Communicating with others

General

Sun Life Financial aims to achieve complete, accurate, fair, understandable and timely communications with all of its shareholders, policyholders, investors, analysts, and the public. Provided you are authorized to respond, a prompt, courteous and accurate response should be made to all proper requests for information.

You should not speak for Sun Life Financial unless you have been expressly authorized to do so.

Continuous disclosure

As a company listed on various worldwide stock exchanges, Sun Life Financial Inc. is required to make public material information, including financial statements, when that disclosure is warranted or required, and to ensure that it does not engage in inappropriate selective disclosure. Sun Life Financial has policies in place to help ensure that material information is distributed in a consistent way, and that it is available to all - fairly, openly and on a timely basis. Refer to the Disclosure Policy for more information.

If someone asks you for information about Sun Life Financial that is not generally available to the public, you must direct that inquiry to Public and Corporate Affairs or an authorized local representative.

Media communications

In addition to everyday communications with outside persons and organizations, Sun Life Financial will, on occasion, be asked to express its views to the media.

As a general rule, senior management, Investor Relations, Public and Corporate Affairs and local communications departments will work together to respond to questions about Sun Life Financial's positions on public policy or industry issues. You should immediately contact the media relations representative in your area if the media approaches you.

Publications and presentations

External communications such as advertising, articles for publication, presentations and remarks being made on behalf of Sun Life Financial may require review prior to release. Consult the Media Guidelines and your local publications review processes for more information.

Refer media questions to the media relations representative in your area. Consult the Disclosure Policy and Media Guidelines for more information.

Q. What should I do if I get a call from the media asking me for information about a proposed acquisition that Sun Life Financial announced through a press release? Is it okay for me to comment since the news is public?

A. No. You should refer the call to the media relations representative in your area. Even though Sun Life Financial has made a public announcement about a development or transaction, you should not comment If you have any other questions refer to the Disclosure Policy and Media Guidelines.

Regulatory and other investigations

As a publicly traded company and a financial institution, Sun Life Financial is regulated by various agencies.

Sun Life Financial co-operates with lawful investigations by regulators, law enforcement agencies and internal investigators. Requests that are outside the normal course of day-to-day business such as special audits, a request to complete a questionnaire or an inquiry related to an industry-wide investigation, as well as any regulatory or government complaint, fine or disciplinary action, must be reported to the compliance officer and senior management in your Business Group. Refer to the Disclosure Policy for more information.

You must provide accurate and factual information to regulators and other investigators. Do not tamper with documents, make misleading statements or ask anyone else to do so. If you suspect information is not being provided as required, then you must report your concerns to your local compliance officer or the person in the Law Department primarily responsible for advising your business unit or function.

Audits

You must not attempt to improperly influence any auditor (internal or external) during his or her review of any financial statements, internal controls or other matters under review.

When you are being audited, you must not:

- directly or indirectly provide misleading information to the auditor;
- withhold any relevant information;
- bribe the auditor in any way; or
- provide an inaccurate legal analysis or business rationale.

Contravention of the Code

Violations of the Code will be taken seriously and could result in disciplinary action, which may include termination of employment. In addition, any breach of the Code that violates the law may result in civil or criminal proceedings.

What to do if you have contravened the Code

If you believe you may have contravened the Code, you are required to advise your local Human Resources Department, your manager, your local compliance officer, or the Chief Compliance Officer.

What to do if you know or suspect that someone else has contravened the Code

Sun Life Financial has procedures to help you report:

- any breach or suspected breach of the Code, supplemental code of business conduct or any Sun Life Financial policy;
- concerns regarding any questionable accounting or auditing matter;
- situations in which you feel you are being pressured to violate the law or your ethical responsibilities; or
- any other breaches of business ethics or legal or regulatory requirements.

If you suspect a breach has taken place, you must report it and be willing to co-operate with any investigation; otherwise you may face disciplinary action. Do not attempt to deal with the situation yourself. Your identity in any follow-up discussions or enquiries will be kept in confidence to the extent appropriate or permitted by law.

Unless you wish to make a report anonymously, you should contact a Human Resources Director, your manager, the Senior Compliance Officer in your Business Group, or the Chief Compliance Officer.

If you would like to report any of these circumstances anonymously, or if you feel that someone has not responded appropriately to your report, use the Employee Ethics Hotline. The Employee Ethics Hotline is accessible either by telephone or via the Internet. The Employee Ethics Hotline is provided by an outside service provider, and is available to all employees, seven days a week, 24 hours a day.

A mischievous or malicious allegation of a breach of the Code will, itself, constitute a breach of the Code. Any reprisal, retaliation or disciplinary action against an employee for reporting, in good faith, an alleged breach of the Code is prohibited.

Q. Can my employment really be terminated for violating the Code?

A. Yes. Your employment may be terminated regardless of your position. Disciplinary action, up to and including termination of employment, may occur for any deviation from this Code or from any of Sun Life Financial's other policies.

Q. What happens when I use the Employee Ethics Hotline?

A. If you use the Employee Ethics Hotline:

- Specially trained employees from an external service provider will create a report based on your call or website submission and create a confidential report. You do not need to give your name if you'd rather be anonymous.
- You will be asked to identify what country you're reporting from so the report can be forwarded to your local compliance officer for investigation. (There's no direct contact between you and the compliance officer as the Employee Ethics Hotline acts as an intermediary.)
- A senior compliance officer will complete a follow-up report. You will be provided with a report number by the service provider so that you can call or check back online for a status update or to add more details to your report at a later date.

Note: for technical reasons Sun Life Financial employees in the United Kingdom who wish to remain anonymous should use the Employee Ethics Hotline telephone service.

Questions / Policies

If you are uncertain about any situation, it is important that you ask for guidance. You may:

- talk to your manager;
- contact anybody identified in the Contact Lists; or
- send an e-mail to SLF_Code_of_Business_Conduct@sunlife.com.

For detailed information on specific Sun Life Financial policies, access the following links or talk to any of the contacts listed below. Links to additional policies are available on The Source.

If you do not have access to The Source you may talk to your manager or any of the contacts listed below.

Issue	Page	Relevant Policy/Contacts
Anti-money laundering/Anti-terrorist financing	8	Global Anti-Money Laundering Policy and Global Suppression of Terrorism Policy, local anti-money laundering policies and your local Money Laundering Reporting Officer
Books and records	21	Sun Life Financial Fraud Reporting and Investigation Policy and local retention of records policies
Communications	24	Media Guidelines and Disclosure Policy
Company assets	20	Information Security Policy
Competing fairly	23	Market Conduct Policy
Complying with the law	6	The person in the Law Department primarily responsible for advising your business unit or function and the Sun Life Financial Legislative Compliance Management Policy
Confidential information	17	Information Security Policy and Disclosure Policy
Contravention of the Code	26	Local Compliance Officer, Chief Compliance Officer, Employee Ethics Hotline, SLF_Code_of_Business Conduct@sunlife.com
Board of Directorships	14	The person in the Law Department primarily responsible for advising your business unit or function
Disclosure	24/25	Disclosure Policy, Sun Life Financial Insider Trading Policy, and the Internet/ E-communication Access and Use Policy
Expenses	20/21	Employee Reimbursement Policy, the North American Travel and Conference Policy or your local travel policy
Fairness in the workplace	9	Local human resources policies
Fraud	7	Sun Life Financial Fraud Reporting and Investigation Policy and your local Fraud Reporting Officer

Issue	Page	Relevant Policy/Contacts
Gifts	12	Local human resources policies
Media communications	24	Media Guidelines and Disclosure Policy
Outside activities or employment	13	A Human Resources Director or the person in the Law Department primarily responsible for advising your business unit or function
Personal Relationships	16	Employment of Relatives Policy and local human resources policies
Privacy	22	The Global Privacy Commitment, local privacy policies, Disclosure Policy, Internet/E-communication Access and Use Policy and Information Security Policy or your local Privacy Officer
Regulatory investigations	25	Local compliance officer or the person in the Law Department primarily responsible for advising your business unit or function
Securities trading	11	Sun Life Financial Insider Trading Policy and contact the person in the Law Department primarily responsible for advising your business unit or function
Technology	18/19	Information Security Policy and the Internet/E-communication Access and Use Policy

There may also be local policies and standards that correspond to the above enterprise-wide policies. Please check your local intranet or ask your manager.

EXHIBIT 5

Deloitte & Touche LLP
BCE Place
181 Bay Street
Suite 1400
Toronto ON M5J 2V1
Canada

Tel: (416) 601-6150
Fax: (416) 601-6590
www.deloitte.ca

Consent of Independent Registered Chartered Accountants

We consent to the use of our reports dated February 8, 2007 relating to the financial statements of Sun Life Financial Inc. and Management's Report on Internal Control over Financial Reporting (including the Comments by Auditors on Canada-United States of America Reporting Difference) appearing in this Annual Report on Form 40-F of Sun Life Financial Inc. for the year ended December 31, 2006.

/s/"Deloitee & Touche LLP"

Independent Registered Chartered Accountants

Toronto, Ontario
February 8, 2007

EXHIBIT 6

Deloitte & Touche LLP
BCE Place
181 Bay Street
Suite 1400
Toronto ON M5J 2V1
Canada

Tel: (416) 601-6150
Fax: (416) 601-6590
www.deloitte.ca

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) when there are changes in accounting principles that have a material effect on the comparability of the financial statements of Sun Life Financial Inc., such as the changes described in Notes 2 and 24 to the financial statements. Our report to the shareholders dated February 8, 2007 is expressed in accordance with Canadian reporting standards, which do not require a reference to such a change in accounting principles in the auditors' report when the change is properly accounted for and adequately disclosed in the financial statements.

/s/ "Deloitte & Touche"

Chartered Accountants
Toronto, Ontario
February 8, 2007

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 8, 2007 on the valuation of the policy liabilities of the Company for its consolidated balance sheet at December 31, 2006 and 2005 and their change in its consolidated statement of operations for the years then ended.

Dated February 8, 2007

/S/ "Robert Wilson"

Robert W. Wilson
Fellow, Canadian Institute of Actuaries
Toronto, Canada

EXHIBIT 8

CERTIFICATION

pursuant to
18 U.S.C. Section 1350
as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 40-F of Sun Life Financial Inc. (the "Company") for the year ended December 31, 2006 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 8, 2007

/S/ "Donald A. Stewart"
Donald A. Stewart
Chief Executive Officer

Date: February 8, 2007

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

EXHIBIT 9

CERTIFICATION

I, Donald A. Stewart, Chief Executive Officer of Sun Life Financial Inc, certify that:

1. I have reviewed this annual report on Form 40-F of Sun Life Financial Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to provide that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to ensure reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: February 8, 2007

/S/ "Donald A. Stewart"
Donald A. Stewart
Chief Executive Officer

CERTIFICATION

I, Paul W. Derksen, Executive Vice-President and 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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: February 8, 2007

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