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

Form 40-F

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

OR

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

For the fiscal year ended **December 31, 2010** Commission File Number **001-15014**

Sun Life Financial Inc.

(Exact name of Registrant as specified in its charter)

Canada
(Province or other jurisdiction of incorporation or organization)

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

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

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

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

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

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

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

Not Applicable
(Title of Class)

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

Not Applicable
(Title of Class)

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

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

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

Common Shares	**574,306,144**
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**
Class A Preferred Shares Series 5	**10,000,000**
Class A Preferred Shares Series 6R	**10,000,000**
Class A Preferred Shares Series 8R	**11,200,000**

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 ¨ 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 ¨

INCORPORATION BY REFERENCE

The following information is incorporated by reference in this annual report on Form 40-F:

Disclosure Controls and Procedures

The information under the heading "Accounting Controls and Matters - Disclosure Controls and Procedures" in the Company's Management's Discussion and Analysis for the year ended December 31, 2010 (the "**2010 Annual MD&A**"). A copy of the Company's 2010 Annual MD&A is attached hereto as Exhibit 1.

Management's Annual Report on Internal Control Over Financial Reporting

The information under the heading "Accounting and Control Matters - Management's Report on Internal Control over Financial Reporting" in the Company's 2010 Annual MD&A and the information in the management report titled "Financial Reporting Responsibilities", with respect to the Company's annual consolidated financial statements for the year ended December 31, 2010 (the "**2010 Annual Financial Statements"**). Copies of the management report titled "Financial Reporting Responsibilities" and the Company's 2010 Annual Financial Statements are attached hereto as Exhibit 2.

Attestation Report of the Registered Public Accounting Firm

The "Report of Independent Registered Chartered Accountants" with respect to the Company's 2010 Annual Financial Statements, which is included in the Company's 2010 Annual Financial Statements.

Changes in Internal Control Over Financial Reporting

The information under the heading “Accounting and Control Matters - Changes in Internal Control over Financial Reporting” in the Company’s 2010 Annual MD&A.

Identification of Audit Committee

The information under the heading “Directors and Executive Officers - Audit Committee” in the Company’s annual information form dated February 16, 2011 (the “**2010 AIF**”). A copy of the Company’s 2010 AIF is attached hereto as Exhibit 3.

Audit Committee Financial Expert

The information under the heading “Directors and Executive Officers - Audit Committee” in the Company’s 2010 AIF.

Code of Ethics

The information under the heading “Directors and Executive Officers - Code of Business Conduct” in the Company’s 2010 AIF.

A copy of the Sun Life Financial Code of Business Conduct is attached hereto as Exhibit 4.

In April 2010, the Sun Life Financial Code of Business Conduct was updated: (a) to include an opening message from the Company’s Chief Executive Officer; (b) to add new sections related to internal controls, social media, records management and sustainability; (c) to expand the discussion on anti-corruption, and bribery, restraint of trade and privacy; (d) to provide additional emphasis on reporting breaches and non-retaliation; (e) to simplify several section in the Code of Business Conduct and (f) to make amendments that are not substantive. A copy of the amended Code of Business Conduct was furnished to the Securities and Exchange Commission in a Form 6-K on April 23, 2010.

Principal Accountant Fees and Services

The information under the headings “Directors and Executive Officers - Principal Accountant Fees and Services” and “Directors and Executive Officers - Policy for Approval of Auditor Services” in the Company’s 2010 AIF.

None of the services provided by the Company’s external auditor described under “Directors and Executive Officers - Principal Accountant Fees and Services” in the Company’s 2010 AIF were approved pursuant to the waiver of pre-approval provisions in paragraph (c)(7)(i)(C) of SEC Rule 2-01 of Regulation S-X.

Off-Balance Sheet Arrangements

The information under the heading “Capital and Liquidity Management - Off-Balance Sheet Arrangements” in the Company’s 2010 Annual MD&A.

Tabular Disclosure of Contractual Obligations

The information under the heading “Risk Management - Operational Risk - Liquidity Risk” in the Company’s 2010 Annual MD&A.

Comparison with New York Stock Exchange Governance Rules

The Company’s governance processes and practices are consistent with the New York Stock Exchange corporate governance rules for U.S. publicly-listed companies.

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.

/S/ "Thomas A. Bogart"

By: _____

Thomas A. Bogart
Executive Vice-President, Business Development and
General Counsel

Dated: February 17, 2011

EXHIBITS:

1. Annual Management's Discussion and Analysis for the year ended December 31, 2010
2. Consolidated Financial Statement for the year ended December 31, 2010
3. Annual Information Form dated February 16, 2011
4. Sun Life Financial Code of Business Conduct
5. Consent of Independent Registered Chartered Accountants
6. Consent of Appointed Actuary
7. 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
8. 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

Management's Discussion and Analysis

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Management's Discussion and Analysis

February 16, 2011

The following table provides a list of abbreviations frequently used throughout this document.

Abbreviation	Description	Abbreviation	Description
AIF	Annual Information Form	**MCCSR**	Minimum Continuing Capital and Surplus Requirements
AFS	Available-for-sale	**MD&A**	Management's Discussion and Analysis
AUM	Assets Under Management	**OCI**	Other Comprehensive Income
EPS	Earnings Per Share	**ROE**	Return on Equity
GAAP	Generally Accepted Accounting Principles	**SEC**	United States Securities and Exchange Commission
HFT	Held-for-trading	**Sun Life Assurance**	Sun Life Assurance Company of Canada
IFRS	International Financial Reporting Standards	**SLF Inc.**	Sun Life Financial Inc.
OSFI	Office of the Superintendent of Financial Institutions, Canada	**Sun Life (U.S.)**	Sun Life Assurance Company of Canada (U.S.)

In this MD&A, SLF Inc. and its consolidated subsidiaries, significant equity investments and joint ventures are collectively referred to as "Sun Life Financial", the "Company", "we", "our" or "us". Unless otherwise indicated, all information in this MD&A is presented as at and for the year ended December 31, 2010, and amounts are expressed in Canadian dollars. Where information at and for the year ended December 31, 2010, is not available, information available for the latest period before December 31, 2010, is used. Financial information, except where otherwise noted, is presented in accordance with Canadian GAAP, and the accounting requirements of OSFI. Additional information relating to the Company can be found in SLF Inc.'s Consolidated Financial Statements and accompanying notes ("Consolidated Financial Statements") and AIF for the year ended December 31, 2010, and other documents filed with securities regulators in Canada, which may be accessed at www.sedar.com, and with the SEC, which may be accessed at www.sec.gov.

Use of Non-GAAP Financial Measures

We evaluate our performance on the basis of financial measures prepared in accordance with GAAP and certain non-GAAP financial measures. We believe that these non-GAAP financial measures provide information useful to investors in understanding our performance and facilitate the comparison of the quarterly and full-year results of our 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".

Forward-looking Information

Certain statements contained or incorporated by reference in this MD&A, including those relating to our 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 information within the meaning of securities laws. Forward-looking information includes the information concerning possible or assumed future results of operations of Sun Life Financial including those set out in this MD&A under Enterprise Mission, Vision, Values and Strategy, Business Profile, Outlook, Financial Objectives, Critical Accounting Policies and Estimates, Changes in Accounting Policies, Financial Performance, SLF Canada, SLF U.S., MFS Investment Management, SLF Asia, Corporate, Investments, Risk Management and Capital and Liquidity Management. These statements represent our expectations, estimates and projections regarding future events and are not historical facts. The forward-looking information 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 shareholder 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 Policies and Estimates and Risk Management of this MD&A 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, changes in legislation and regulations including capital requirements and tax laws; investment losses and defaults and changes to investment valuations; the performance of equity markets; the cost, effectiveness and availability of risk-mitigating hedging programs; losses relating to real estate investments; the creditworthiness of guarantors and counterparties to derivatives; changes and volatility in interest rates and credit/swap spreads; other market risks including movement in credit spreads; risks relating to product design and pricing; market conditions that adversely affect the Company's capital position or its ability to raise capital; possible sustained economic downturn; 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 related to market liquidity; downgrades in financial strength or credit ratings; the ability to attract and retain employees; risks relating to financial modelling errors; the performance of the Company's investments and investment portfolios managed for clients such as segregated and mutual funds; the impact of mergers and acquisitions; insurance risks including mortality, morbidity, including the occurrence of natural or man-made disasters, pandemic diseases and acts of terrorism; adverse mortality and morbidity experience; uncertainty in the rate of mortality improvement; risks relating to policyholder behaviour; the inability to maintain strong distribution channels and risks relating to market conduct by intermediaries and agents; risks relating to operations in Asia including risks relating to joint ventures; the impact of competition; currency exchange rate fluctuations; business continuity risks; failure of information systems and Internet-enabled technology; breaches of computer security and privacy; dependence on third-party relationships including outsourcing arrangements; the impact of adverse results in the closed block of business; the potential for financial loss related to changes in the environment; the availability, cost and effectiveness of reinsurance; the ineffectiveness of risk management policies and procedures; the impact of higher-than-expected future expense cash flows; and the risks relating to the significant estimates and judgment in calculating taxes. The Company does not undertake any obligation to update or revise its forward-looking information to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events, except as required by law.

Overview

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:

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 for 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 leverage 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:

Generate value-building growth
Expand distribution capabilities and enhance products and services to sustain profitable top-line growth.

Intensify customer focus
Satisfy customer needs by delivering top quality products and services that are grounded in consumer insight.

Enhance productivity and efficiency
Continuously improve productivity and efficiency to reduce costs and increase competitiveness.

Strengthen risk management
Continue to build a strong risk management culture and practices to maximize shareholder value.

Foster innovation
Embed innovation throughout Sun Life to create customer value, improve business results and gain competitive advantage.

Talent management
Attract, develop and engage highly talented employees, ready and able to contribute to the full extent of their potential.

Business Profile

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. We manage our operations and report our 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 our United Kingdom business unit ("SLF U.K.") and Corporate Support operations. Our Corporate Support operations include our life reinsurance business, which we sold on December 31, 2010, and our run-off reinsurance business as well as investment income, expenses, capital and other items not allocated to other business segments. Our functional currency is the Canadian dollar. Certain financial information for SLF U.S. and MFS is presented in this MD&A in both Canadian and U.S. dollars.

Business Segment	Business Units
SLF Canada	Individual Insurance & Investments Group Benefits Group Wealth
SLF U.S.	Annuities Individual Insurance Employee Benefits Group
MFS Investment Management	–
SLF Asia	–
Corporate	SLF U.K. Corporate Support

Our business model is one of balance as we strive to establish scale and scope in each of the diversified markets in which we choose to compete. Our model weighs the higher growth prospects of operations in emerging markets against the more established businesses in mature markets. In a similar way, our protection business balances the relatively more volatile wealth management business. It also ensures that our customers have access to complementary insurance, retirement and savings products that meet their specific needs at every stage of their lives. In response to the changing economic and regulatory landscape, we have increased our focus on product designs that provide greater flexibility around pricing and benefits, lower capital requirements and improved longer-term opportunities for sustainable profitable growth. The following table shows our products by business segment.

Products	SLF Canada	SLF U.S.	MFS	SLF Asia	Corporate
Individual life insurance	—	—		—	—
Individual health insurance	—			—	
Individual annuity and savings	—	—		—	—
Group life and health	—	—		—	
Group pension and retirement	—			—	
Mutual funds	—		—	—	
Asset management	—	—	—	—	

Our focus on multi-channel distribution offers customers choices as to how and when they purchase products and access services.

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

Financial Highlights

($ millions, unless otherwise noted)		2010	2009	2008
Common shareholders' net income (loss)	Operating[1]	1,583	561	(40)
	Reported	1,583	534	785
Basic reported EPS ($)		2.79	0.95	1.40
Diluted EPS[1]	Operating[1]	2.76	0.99	(0.10)
	Reported	2.76	0.94	1.37
ROE (%)	Operating[1]	9.9%	3.5%	-0.3%
	Reported	9.9%	3.4%	5.1%
Dividends per common share ($)		1.44	1.44	1.44
Dividend payout ratio[2] (%)		52%	152%	103%
Dividend yield[3] (%)		5.0%	5.4%	3.8%
MCCSR ratio[4]		228%	221%	232%
Total Revenue		24,640	27,572	15,563
Premiums, deposits and fund sales				
Premium revenue, including administration services only premium equivalents		17,768	20,004	18,613
Segregated fund deposits		10,554	11,060	10,919
Mutual fund sales		28,468	24,642	19,327
Managed fund sales		29,641	33,525	20,944
Total premiums, deposits and fund sales		86,431	89,231	69,803
Assets under management (as at December 31)[5]				
General fund assets		120,859	120,091	119,842
Segregated fund assets		88,911	81,305	65,762
Mutual fund assets[5]		107,263	96,077	83,602
Managed fund assets[5]		146,486	134,121	110,405
Other AUM[5]		729	1,046	1,490
Total AUM[5]		464,248	432,640	381,101
Capital (as at December 31)				
Subordinated debt and other capital[6]		4,385	4,692	3,726
Participating policyholders' equity		114	107	106
Total shareholders' equity		18,245	17,230	17,226
Total capital		22,744	22,029	21,058

(1) All EPS measures refer to diluted EPS, unless otherwise stated. Operating earnings, operating EPS and operating ROE are non-GAAP measures and exclude certain items described under the heading Non-GAAP Financial Measures.
(2) The dividend payout ratio represents the ratio of common shareholders' dividends to reported common shareholders' net income.
(3) The dividend yield represents the common dividend per share as a percentage of the average of the high and low share price.
(4) Represents the MCCSR ratio of Sun Life Assurance.
(5) AUM, mutual fund assets, managed fund assets, other AUM and total AUM are non-GAAP financial measures. For additional information, see the section under the heading Non-GAAP Financial Measures.
(6) Other capital refers to Sun Life ExchangEable Capital Securities ("SLEECS"), which qualify as capital for Canadian regulatory purposes. Additional information is available in the section Capital and Liquidity Management under the heading Capital.

Corporate Developments

The following developments occurred in 2010.

Sale of Reinsurance Business

On December 31, 2010, we completed the sale our life reinsurance business. The transaction is part of our strategy to deploy capital to parts of our business that can best achieve strong sustainable growth. The sale increased Sun Life Assurance's MCCSR by 14 points, and did not have a material impact on net income in 2010.

Other Developments

On December 31, 2010, Sun Life Assurance entered into an external reinsurance agreement for the insured business in SLF Canada's Group Benefits operations. The implementation of this agreement resulted in an increase in Sun Life Assurance's MCCSR ratio by 12 points and had no impact on net income in 2010.

On July 20, 2010, Sun Life Everbright Life Insurance Company Limited ("Sun Life Everbright") was restructured as a domestic insurance company. Under the restructuring of our joint venture with China Everbright Group Company ("China Everbright Group"), additional strategic investors were introduced, which reduced our ownership in Sun Life Everbright from 50% to 24.99%.

Common Share Activity

In 2010, SLF Inc. paid common shareholder dividends of $1.44 per common share. This was the same level of dividends paid in 2009. In 2010, SLF Inc. issued approximately 9 million shares from treasury under its Canadian Dividend Reinvestment and Share Plan.

Financing Arrangements

On October 12, 2010, Sun Life Assurance redeemed all of the outstanding $300 million principal amount of 6.65% Debentures, Series 3, due October 12, 2015, issued by Clarica Life Insurance Company ("Clarica").

On May 25, 2010, SLF Inc. issued $280 million of Class A Non-Cumulative Rate Reset Preferred Shares Series 8R at a price of $25.00 per share and yielding 4.35% annually.

Outlook

Equity markets recorded a second consecutive year of positive returns in 2010. In North America, the economic recovery remained fragile as high unemployment, reduced spending and weakness in the housing market moderated economic growth in the United States, putting downward pressure on interest rates. The growing influence and strong performance of emerging markets such as China and India contributed positively to global economic growth in 2010.

According to the Organization for Economic Development and Cooperation, emerging economies are expected to continue to be the growth engines for the world in 2011. The emerging economies of China, India and Indonesia are expected to achieve growth rates ranging from 6% - 9% in 2011. GDP growth in North America is expected to be moderate, with both the United States and Canada expected to grow at approximately 2%. In the United States the Federal Reserve is expected to maintain its federal funds rate in the range of 0% - 0.25% throughout 2011 to stimulate the economy. In Canada, the economy has fared better than its G7 counterparts, causing the Bank of Canada to raise interest rates three times in 2010 before a pause to further action. However, the Bank of Canada has indicated that any further reduction in monetary policy stimulus would need to be carefully considered.

As we emerge from the financial crisis we are faced with challenges and opportunities. The regulatory environment is evolving as governments and regulators develop enhanced requirements for capital, liquidity and risk management practices to help financial institutions better withstand periods of substantial volatility. For consumers, the financial crisis highlighted the need for greater security and protection of retirement savings. We see several trends that will drive growth in the insurance industry. The aging of the population in North America, the rise of the middle class in the emerging markets of China and India, as well the shifting responsibility from governments and employers to individuals are all expected to increase the demand for private solutions for pension, savings and health care needs.

Financial Objectives

Financial objectives are established for the Company each year based on our view of future financial performance and the evolving economic and regulatory conditions. In 2010, the following financial objectives were established:

- to achieve an operating ROE in the 12% – 14% range over a three-to-five year period [(1)], while maintaining a strong capital position and effective capital deployment

We made progress toward our operating ROE objective in 2010, but remain below our three-to-five year target range. In 2010, the Company generated an operating ROE of 9.9%, which was below our three-to-five year objective, but was higher than our 2009 operating ROE of 3.5%. The improvement in our ROE over 2009 was primarily the result of operating earnings of $1,583 million for the full-year 2010, compared to $561 in 2009. Results for the full year 2010 included $173 million related to improvements in equity markets in excess of assumed levels, the favourable impact of asset liability re-balancing and the favourable impact of the purchase of the United Kingdom operations of Lincoln National Corporation ("Lincoln U.K. acquisition") in the fourth quarter of 2009. Movements in interest rates contributed $34 million to net income in 2010 as interest rate swap movements more than offset the adverse impact of lower interest rates. These favourable impacts were partially offset by increased expense levels from business initiatives in 2010 and $49 million of unfavourable credit impacts.

(1) Operating ROE is a non-GAAP measure. For additional information, see the section under the heading Non-GAAP Financial Measures.

The operating ROE objective that was established in 2010 was based on the assumptions described below relating to equity market performance, interest rates and credit markets and the Company's economic and business outlook at the time. The following table summarizes the differences between the assumptions used in establishing our operating ROE objective and the actual experience in 2010.

Factor	Assumptions	2010 Experience
Equity Markets	A steady rise in the annual level of equity market indices, primarily the S&P 500, by approximately 7% – 8%	The S&P 500 increased by 13%, while the S&P/TSX Composite Index increased by 14%
Interest Rates	Near-term stability in North American interest rates across the yield curve and over the longer term; interest rates that are generally higher than statutory or contractual minimums required on certain guaranteed products offered by the Company	Interest rates were volatile in 2010 with interest rates on government securities that were generally lower than the prior year
Credit	A credit environment within historical norms, which reflects the Company's best estimates on credit	Credit conditions improved in 2010 relative to the prior year, however certain asset classes such as commercial mortgages remained under pressure
Currency	Stability in exchange rates between the Canadian dollar and foreign currencies, primarily the U.S. dollar and the British pound sterling	The Canadian dollar appreciated by $0.05 against both the U.S. dollar and British pound in 2010

During 2010, we maintained a capital level commensurate with our risk profile, while maintaining a capital efficient structure to optimize shareholder returns. Sun Life Assurance, our principal operating subsidiary in Canada, ended the year with an MCCSR ratio of 228%, well in excess of OSFI's capital target for life insurance companies.

Our operating ROE objective for 2011 is unchanged from last year. This objective reflects the impact of a low interest rate environment, higher risk management costs and uncertainty in capital markets, expected higher levels of capital required by regulators, as well as the adoption of IFRS.

- to achieve an operating ROE in the 12% – 14% range over a three-to-five year period, while maintaining a strong capital position and effective capital deployment

Our three-to-five year operating ROE objective remains based on the assumptions with respect to equity markets, interest rates, credit and currency described in the table above. It is based on business mix and best estimate actuarial assumptions as at December 31, 2010. In addition, this objective reflects the adoption of IFRS (including a reduction in shareholders equity of $2.2 billion) and revised criteria for variable annuity and segregated fund capital requirements on new business, both of which became effective January 1, 2011. Our operating ROE objective is significantly dependent on business written in the past and reflects economic conditions, capital requirements, pricing and other assumptions in effect at that time.

We expect to maintain the current level of dividends on SLF Inc.'s common shares, which are subject to the approval of the Board of Directors each quarter, provided that economic conditions and the Company's results allow it to do so while maintaining a strong capital position. The information concerning future dividends is forward-looking information and is based on the assumptions set out above and is subject to the risk factors described under Forward-looking Information. Additional information is provided under the heading Shareholders Dividends.

Accounting and Control Matters

Critical Accounting Policies and Estimates

Our significant accounting and actuarial policies are described in Notes 1, 2, 5 and 9 of our 2010 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 our financial performance. As part of our financial control and reporting, judgments involving assumptions and estimates are reviewed by the independent auditor and by other independent advisors on a periodic basis. Accounting policies requiring estimates are applied consistently in the determination of our financial results. Unless indicated otherwise, the discussion of Critical Accounting Policies and Estimates is based on Canadian GAAP. Effective January 1, 2011, we adopted IFRS. Additional information regarding IFRS can be found in this section of the document under the heading International Financial Reporting Standards.

Benefits to Policyholders

Our benefit payment obligations are estimated over the life of our annuity and insurance products based on internal valuation models and are recorded in our financial statements, primarily in the form of actuarial liabilities. The determination of these obligations is fundamental to our financial results and requires management to make assumptions about equity market performance, interest rates, asset default, mortality and morbidity rates, policy terminations, expenses and inflation, and other factors over the life of our products.

We use 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 our actuarial liabilities to provide for possible adverse deviations from the best estimates. If an assumption is more susceptible to volatility or if there is uncertainty about an underlying best estimate assumption, a correspondingly larger provision is included in our actuarial liabilities.

In determining these provisions, we ensure that:

- 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 the 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.

Significant factors affecting the determination of policyholders' benefits, the methodology by which they are determined, their significance to the Company's financial condition and results of operations are described below.

Equity Market Movements

The determination of our actuarial liabilities requires that we make estimates about equity market movements. We are exposed to equity markets through our segregated fund and annuity products that provide guarantees linked to underlying fund performance. We have implemented hedging programs involving the use of derivative instruments, in order to help mitigate a portion of the equity market-related volatility in the cost of providing these guarantees to reduce our exposure to this particular class of equity market risk. For these blocks we use stochastic modelling techniques, which test a large number of different scenarios of future market returns, to estimate the actuarial liability for the various guarantees.

In addition, the value of our policyholder obligations for certain insurance products is dependent on assumptions about the future level of equity markets. The calculation of actuarial liabilities for equity market-sensitive products includes provisions for moderate changes in rates of equity market return with provisions determined using scenario testing under the standards established by the Canadian Institute of Actuaries. The majority of equities which are designated as HFT support our participating and universal life products where investment returns are passed through to policyholders through routine changes in the amount of dividends declared or in the rate of interest credited. In these cases changes in equity values are largely offset by changes in actuarial liabilities.

Interest Rates

The determination of our actuarial liabilities requires that make estimates about interest rate movements. The value of our policyholder obligations for all policies is sensitive to changes in interest rates. The calculation of actuarial liabilities for all policies includes provisions for moderate changes in interest rates with provisions determined using scenario testing under the standards established by the Canadian Institute of Actuaries. The major part of this sensitivity is offset with a similar sensitivity in the value of the Company's assets held to support actuarial liabilities.

For certain products, including participating insurance and certain forms of universal life policies and annuities, policyholders share investment performance through routine changes in the amount of dividends declared or in the rate of interest credited. These products generally have minimum interest rate guarantees. Hedging programs are in place to help mitigate the impact of interest rate movements.

Mortality

Our actuarial liabilities include estimates for mortality. Mortality refers to the rates at which death occurs for defined groups of people. Insurance mortality assumptions are generally based on our five-year average experience. For annuities, our experience is generally combined with industry experience, since our own experience is not sufficient to be statistically valid. In general, assumed mortality rates for life insurance contracts do not reflect any future expected improvement, except in some instances where the net effect of reflecting future improvement increases the policy liabilities. For annuities where lower mortality rates result in an increase in liabilities, assumed future mortality rates are adjusted to reflect estimated future improvements.

Morbidity

Our actuarial liabilities include estimates for morbidity. Morbidity refers to both the rates of accident or sickness and the rates of recovery therefrom. Most of our disability insurance is marketed on a group basis. In Canada and in Asia, we offer critical illness policies on an individual basis, and in Canada, we offer long-term care on an individual basis. Medical stop-loss insurance is offered on a group basis in the United States and Canada. In Canada, group morbidity assumptions are based on our five-year average experience, modified to reflect the trend in recovery rates. For long-term care and critical illness insurance, assumptions are developed in collaboration with our reinsurers and are largely based on their experience. In the United States, our 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 experience is limited.

Policy Termination Rates

Our actuarial liabilities include estimates for policy termination rates. Policy termination rates refer to the rate at which policies terminate prior to the end of the contractual coverage period. 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 a surrender option in the contract. Assumptions for termination experience on life insurance are generally based on our five-year average 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. Industry experience is considered for certain products where our experience is not sufficient to be statistically valid.

Operating Expenses and Inflation

Actuarial liabilities include estimates 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 our recent experience using an internal expense allocation methodology. Future expense assumptions reflect inflation and are consistent with the future interest rates used in the scenario testing under the standards established by the Canadian Institute of Actuaries.

Asset Default

Asset default provisions are included in actuarial liabilities for possible future asset defaults over the lifetime of our actuarial liabilities. The amount included in actuarial liabilities is based on possible reductions in the expected future investment yield depending on the creditworthiness of the asset. The underlying asset default assumptions for bonds and mortgages are derived from long-term studies. The bond assumptions are based on total U.S. market experience. The mortgage assumptions are based on the Company's experience. We have provided $2.9 billion for possible future asset defaults over the lifetime of our actuarial liabilities as at December 31, 2010. The amount excludes defaults that can be passed through to participating policyholders and excludes provisions for loss in the value of equity and real estate assets supporting actuarial liabilities.

Sensitivities to Best Estimate Assumptions

Our sensitivities relative to our best estimate assumptions are included in the table below. The sensitivities presented below are forward-looking information. They are measures of our estimated net income sensitivity to changes in the best estimate assumptions in our actuarial liabilities based on a starting point and business mix as of December 31, 2010. They reflect the update of actuarial method and assumption changes described in this MD&A under the heading Management Actions and Assumption Changes. Where appropriate, these sensitivities take into account hedging programs in place as at December 31, 2010. A description of these hedging programs can be found in this MD&A under the heading Market Risk. The sensitivity to changes in our accounting estimates in the table below represents the Company's estimate of changes in market conditions or best estimate assumptions that are reasonably likely based on the Company's and/or the industry's historical experience and industry standards and best practices as at December 31, 2010.

Changes to the starting point for interest rates, equity market prices and business mix will result in different estimated sensitivities. Additional information regarding equity and interest rate sensitivities, including key assumptions, can be found in the Risk Management section of this document under the heading Market Risk Sensitivities.

Critical Accounting Estimate	Sensitivity	Impact on Net Income ($ millions)
Interest Rates	1% parallel increase in interest rates across the entire yield curve	50 – 150
	1% parallel decrease in interest rates across the entire yield curve	(150) – (250)
Equity Markets	10% increase across all equity markets	25 – 75
	10% decrease across all equity markets	(125) – (175)
	25% increase across all equity markets	50 – 150
	25% decrease across all equity markets	(475) – (575)
	1% reduction in assumed future equity and real estate returns	(350) – (450)
Mortality	2% increase in the best estimate assumption – insurance products	(40)
	2% decrease in the best estimate assumption – annuity products	(85)
Morbidity	5% adverse change in the best estimate assumption	(110)
Policy Termination Rates	10% decrease in the termination rate – where fewer terminations would be financially adverse	(225)
	10% increase in the termination rate – where more terminations would be financially adverse	(80)
Operating Expenses and Inflation	5% increase in unit maintenance expenses	(140)

Fair Value of Investments

HFT and AFS bonds and stocks are recorded at fair value. Changes in fair value of HFT assets are recorded in income, while changes in fair value of AFS assets are recorded in OCI, a component of equity. The fair value of publicly traded fixed maturity and equity securities is determined using quoted market bid prices in active markets that are readily and regularly obtainable, when available. When quoted prices in active markets are not available, the determination of fair value is based on market standard valuation methodologies, which include matrix-pricing, consensus pricing from various broker dealers that are typically the market makers, discounted cash flows or other similar techniques. The assumptions and valuation inputs in applying these market standard valuation methodologies are determined primarily using observable market inputs, which include, but are not limited to, benchmark yields, issuer spreads, reported trades of identical or similar instruments and prepayment speeds. Prices obtained from independent pricing services are validated through back-testing to trade data, comparisons to observable market inputs or other economic indicators, and other qualitative analysis to ensure that the fair value is reasonable. For securities in which the fair value is based solely on non-binding broker quotes that cannot be validated to observable market data, we typically consider the fair value to be based on unobservable inputs, due to a general lack of transparency in the process that the brokers use to develop the prices. Where pricing services or broker dealers are used in determining fair value, generally one quote or price is obtained per security. Quotes and prices obtained from third parties are adjusted in very limited circumstances, such as where there is an error in the information obtained from the pricing service. Stocks that do not have a quoted market price on an active market and are designated as AFS are reported at cost and are not material to our Consolidated Financial Statements.

The fair value of non-publicly traded bonds is determined using a discounted cash flow approach that includes provisions for credit risk, liquidity premium, and the expected maturities of the securities. Since quoted market prices are not readily and regularly obtainable, management judgment is required to estimate the fair value of these bonds. The valuation techniques used are based primarily on observable market prices or rates.

Derivative financial instruments are recorded at fair value with changes in fair value recorded to income unless the derivative is part of a qualifying hedging relationship. The fair value of derivative financial instruments depends upon the type of derivative and is determined primarily using observable market inputs. Fair values of exchange-traded futures are based on quoted market prices. When quoted market prices are not readily available, management estimates fair value using valuation models dependent on the type of

derivative. The fair value of interest rate and cross-currency swaps and forward contracts is determined by discounting expected future cash flows using current market interest and exchange rates for similar instruments. Fair value of common stock index swaps and options is determined using the value of underlying securities or indices and option pricing models using index prices, projected dividends and volatility surfaces.

In 2009, we adopted amendments to CICA Handbook Section 3862, Financial Instruments – Disclosures. The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. Specifically, assets and liabilities are categorized based on a three level hierarchy as follows:

Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market. The types of assets and liabilities classified as Level 1 generally include U.S. Treasury and agency securities, cash and cash equivalents, and exchange-traded equities.

Level 2: Fair value is based on quoted prices for similar assets or liabilities in active markets. Valuation is based on significant observable inputs or inputs that are derived principally from or corroborated with observable market data through correlation or other means. The types of assets and liabilities classified as Level 2 generally include government bonds, certain corporate and private bonds, certain asset-backed securities and derivatives.

Level 3: Fair value is based on valuation techniques that require one or more significant inputs that are not based on observable market inputs. These unobservable inputs reflect the Company's estimates about the assumptions market participants would use in pricing the asset or liability. The types of assets and liabilities classified as Level 3 generally include commercial mortgage-backed securities ("CMBS"), residential mortgage backed securities ("RMBS"), certain structured products and certain corporate bonds.

As pricing inputs become more or less observable, assets are transferred between levels in the hierarchy. For a financial instrument that transfers into Level 3 during the reporting period, the entire change in fair value for the period is included in the Level 3 reconciliation schedule in Note 5.A.iii to our 2010 Consolidated Financial Statements. For transfers out of Level 3 during the reporting period, the change in fair value for the period is excluded from the Level 3 reconciliation schedule in Note 5.A.iii to our 2010 Consolidated Financial Statements. Transfers into Level 3 occur when the inputs used to price the financial instrument lack observable market data and as a result, no longer meet the Level 1 or 2 definition at the reporting date. During the current reporting period, transfers into Level 3 were primarily related to a significant reduction in the trading activity of certain types of securities, which resulted in a change to the pricing source. Transfers out of Level 3 occur when the pricing inputs become more transparent and satisfy the Level 1 or 2 definition at the reporting date. During the current reporting period, transfers out of Level 3 were primarily related to observable market data being available at the reporting date, thus removing the requirement to rely on inputs that lack observability. If a financial instrument is transferred into and out of Level 3 during the same period, it is not included in the Level 3 reconciliation schedule in Note 5.A.iii to our 2010 Consolidated Financial Statements. Total gains and losses in earnings and OCI (loss) are calculated assuming transfers into or out of Level 3 occur at the beginning of the period.

Transfers into and out of Level 3 were $319 million and $442 million, respectively, for the year ended December 31, 2010. The total amount of the net realized/unrealized gains/ (losses) related to securities transferred out of Level 3 during the period, which were excluded from the Level 3 reconciliation, was approximately $54 million.

Real estate held for investment is initially recorded at cost and the carrying value is adjusted towards fair value each quarter by 3% of the difference between fair value and carrying value. The fair value of real estate is based on external appraisals, using expected future net cash flows discounted at current market interest rates.

Mortgages and corporate loans are recorded at amortized cost. The fair value of mortgages and corporate loans is determined by discounting the expected future cash flows using current market interest rates with similar credit risks and terms to maturity.

Due to their nature, the fair values of policy loans and cash are assumed to be equal to their carrying values, which is the amount these items are recorded on the balance sheet. Cash equivalents and short-term securities are recorded at fair value, which is determined based on market yields.

Other invested assets designated as HFT and AFS are primarily investments in segregated funds and mutual funds. These are reported on the Consolidated Balance Sheets at fair value , which is determined by reference to quoted market prices. Other invested assets designated as AFS also include investments in limited partnerships, which are accounted for at cost.

Other-than-Temporary Impairment of Financial Assets and Allowance for Investment Losses

Changes in the fair value of AFS bonds and stocks are recorded as unrealized gains and (losses) in OCI.

AFS bonds are tested for impairment on a quarterly basis. Objective evidence of impairment includes financial difficulty of the issuer, bankruptcy or defaults and delinquency in payments of interest or principal. Where there is objective evidence that an AFS bond is impaired and the decline in value is considered to be other-than-temporary, the loss accumulated in OCI is reclassified to net gains (losses) on AFS assets in the Company's Consolidated Statement of Operations. If the fair value of an AFS bond recovers after an impairment loss is recognized and the recovery can be objectively related to an event occurring after the impairment loss is recognized in net income, the impairment loss is reversed, and the amount of the impairment loss reversal is recorded in net income. During the year ended December 31, 2010, we did not have any impairment loss reversals on AFS bonds. Following impairment loss recognition or reversal, AFS bonds continue to be recorded at fair value with changes in fair value recorded in OCI and tested quarterly for further impairment loss or reversal. Interest is recognized on previously impaired AFS bonds in accordance with the effective interest rate method.

AFS stocks are tested for impairment on a quarterly basis. All equity instruments in an unrealized loss position are reviewed quarterly to determine if objective evidence of impairment exists. Objective evidence of impairment for an investment in an equity instrument includes, but is not limited to, the financial condition and near-term prospects of the issuer, including information about significant changes with adverse effects that have taken place in the technological, market, economic or legal environment in which the issuer operates that may indicate that the carrying amount will not be recovered, and a significant or prolonged decline in the fair value of an

equity instrument below its cost. If, as a result of this review, the security is determined to be other-than-temporarily impaired, it is written down to its fair value. When this occurs, the loss accumulated in OCI is reclassified to net gains (losses) on AFS assets in the Company's Consolidated Statement of Operations.

For the twelve months ended December 31, 2010, we wrote down $39 million of impaired AFS assets compared to $185 million in 2009. These assets were written down since the length of time that the fair value was less than the cost or the extent and nature of the loss indicated that the fair value would not recover. These write-downs are included in net gains (losses) on AFS assets in the Company's Consolidated Statement of Operations. There were no write-downs during 2010 ($3 million in 2009) relating to impaired AFS bonds that were part of fair value hedging relationships as described in Note 5.D. to our 2010 Consolidated Financial Statements.

Mortgages and corporate loans are carried at amortized cost, net of allowances for losses. A mortgage or loan is classified as impaired when there is no longer assurance of the timely collection of the full amount of principal and interest. When mortgages or corporate loans are classified as impaired, allowances for losses are established to adjust the carrying value of the asset to its net recoverable amount. The use of different methodologies and assumptions may have a material effect on the estimates of net recoverable amount. We consider various factors when identifying the potential impairment of mortgages and corporate loans. In addition to our ability and intent to hold these invested assets to maturity or until a recovery in value occurs, consideration is given to general economic and business conditions, industry trends, specific developments with regard to security issuers, and available market values. Increases in the allowances 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.

As at December 31, 2010, we had net allowances for losses of $216 million on impaired mortgages and corporate loans compared to $116 million as at December 31, 2009. These allowances for losses were recognized since there was no longer reasonable assurance of collection of the estimated future cash flows. The change in allowances for losses is included in the other net investment income in the Company's Consolidated Statement of Operations.

Goodwill and Other Intangibles

Goodwill represents the excess of the cost of businesses acquired over the fair value of the net identifiable tangible and intangible assets. Goodwill is not amortized, but is assessed for impairment by comparing the carrying values of the appropriate reporting units to their respective fair values. Goodwill is assessed for impairment annually. Goodwill assessment may occur between annual periods if events or circumstances occur that may result in the fair value of a reporting unit falling below its carrying amount. If a potential impairment is identified, it is quantified by comparing the carrying value of the respective goodwill to its fair value. The fair value of the business and subsidiary segments is determined using various valuation models which require management to make judgments and assumptions that could affect the fair value estimates and result in impairment write-downs. During 2010, no goodwill was written down due to impairment.

We had a carrying value of $6.0 billion in goodwill as at December 31, 2010. The goodwill consisted primarily of $3.4 billion arising from the acquisition of Clarica Life Insurance Company in 2002, which decreased by $309 million during 2010 due to the sale of our life reinsurance business, $1.2 billion arising from the acquisition of Keyport Life Insurance Company in the United States in 2001, $437 million arising from the acquisition of CMG Asia Limited ("CMG Asia") in Hong Kong in 2005, $302 million arising from the acquisition of the Genworth EBG business in the United States in 2007, and $169 million from the Lincoln U.K. acquisition in the United Kingdom in 2009.

Information concerning goodwill under IFRS can be found in this MD&A under the heading, International Financial Reporting Standards.

Other 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. The useful life of finite-life intangible assets are reviewed annually, and the amortization is adjusted as necessary. Indefinite-life intangibles are not amortized; instead they are assessed for impairment annually or more frequently if events or changes in circumstances indicate that the asset may be impaired. Impairment is determined by comparing the indefinite-life intangible assets' carrying values to their fair values. If the carrying values of the assets exceed their fair values, these assets are considered impaired and a charge for impairment is recognized. 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 result in impairment write-downs. During 2010, none of our indefinite-life intangible assets were written down due to impairment.

As at December 31, 2010, our finite-life intangible assets had a carrying value of $657 million, which reflected the value of the field force and asset administration contracts acquired as part of the Clarica, CMG Asia, and Genworth EBG acquisitions, as well as software costs. Our indefinite-life intangible assets had a carrying value of $241 million as at December 31, 2010. The value of the indefinite-life intangible assets reflected fund management contracts and state licenses.

Income Taxes

Sun Life Financial's provision for income taxes is calculated based on the expected tax rules of a particular fiscal period. The determination of the required provision for current and future income taxes requires that we interpret tax legislation in the jurisdictions in which we operate and that we make assumptions about the expected timing of realization of future tax assets and liabilities. To the extent that our 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 increase or decrease cannot be reasonably estimated.

Future tax assets are recognized to the extent that the benefits of tax losses and tax deductions are more likely than not to be realized; if it is apparent that it is more likely than not that the benefit of tax losses and tax deductions will not be realized, a future income tax asset is not recognized. At each reporting period, we assess all available evidence, both positive and negative, to determine the amount of future tax assets to be recorded. The assessment requires significant estimates and judgment about future events based on the information available at the reporting date.

Pension Plans and Other Post-Retirement Benefits

The Company offers defined benefit pension plans and defined contribution plans for eligible employees. Since January 1, 2009, all new employees in Canada participate in a defined contribution plan, while existing employees continue to accrue future benefits in the prior defined benefit plan. In general, all of our material defined benefit plans worldwide are closed to new entrants and defined contribution plans are provided to new hires. Our defined benefit pension plans offer benefits based on length of service and final average earnings and certain plans offer some indexation of benefits. In addition, in some countries we provide certain post-retirement medical, dental and life insurance benefits to eligible qualifying employees and their dependents upon meeting certain requirements.

Due to the long-term nature of these plans, the calculation of benefit expenses and accrued benefit obligations depends on various assumptions, including discount rates, expected long-term rates of return on assets, rates of compensation increases, medical cost rates, retirement ages, mortality rates and termination rates. Based upon consultation with external pension actuaries, management determines the assumptions used for these plans on an annual basis. Actual experience may differ from the assumed rates, which would impact the pension benefit expenses and accrued benefit obligations in future years. Details of our pension and post-retirement benefit plans and the key assumptions used for these plans are included in Note 22 to our 2010 Consolidated Financial Statements.

The following table provides the potential sensitivity of the benefit obligation and expense for pension and post-retirement benefits to changes in certain key assumptions based on pension and post-retirement obligations as at December 31, 2010. These sensitivities are hypothetical and should be used with caution. The impact of changes in each key assumption may result in greater than proportional changes in sensitivities. The sensitivities are forward-looking information and are based on the assumptions set out and subject to the risk factors described under Forward-looking Information.

Sensitivity of Key Assumptions

($ millions)	Pension		Other post-retirement	
	Obligation	Expense	Obligation	Expense
Impact of a 1% change in key assumptions				
Discount rate				
Decrease in assumption	362	35	33	2
Increase in assumption	(313)	(33)	(30)	(2)
Expected long-term rate of return on plan assets				
Decrease in assumption	–	21	–	–
Increase in assumption	–	(21)	–	–
Rate of compensation increase				
Decrease in assumption	(47)	(10)	–	–
Increase in assumption	49	11	–	–

Changes in Accounting Policies

Changes in Accounting Policies in 2010

There were no significant changes in accounting policies in 2010.

International Financial Reporting Standards

In accordance with the requirements of the Canadian Accounting Standards Board, we adopted IFRS as of January 1, 2011, and we will begin reporting our results on an IFRS basis in the first quarter of 2011. This section includes the following information and updates:

- Status of the key elements of our IFRS changeover plan;
- Impact of the conversion to IFRS on our opening balance sheet and total equity as at January 1, 2010 (“Transition Date”);
- Key impacts on net income; and
- Future IFRS accounting standard changes.

IFRS Changeover Plan Status

Key elements and milestones	Status
Education and training	
Ÿ Provide technical training to staff and management responsible for the production and interpretation of financial statements by Q4 2009 and on-going training on new IFRS developments	Ÿ Technical training of staff and management was completed by Q4 2009 and on-going training on new IFRS developments continued throughout 2010
Ÿ Provide regular IFRS training sessions and periodic project updates to the Board of Directors and its Audit Committee	Ÿ Training sessions and regular project updates have been provided to the Board of Directors and its Audit Committee since Q2 2008, and will continue
Ÿ Determine communications requirements for external stakeholders by Q2 2010	Ÿ An education program on the impact of IFRS was developed for external stakeholders and information sessions occurred in the second half of 2010

Key elements and milestones	Status
Accounting policy changes and financial reporting	
Ÿ Identify and document policy differences between Canadian GAAP and IFRS by Q4 2009	Ÿ Key accounting policy differences between Canadian GAAP and IFRS have been identified and documented
Ÿ Assess the presentation and disclosure requirements under IFRS and develop pro forma financial statements and key note requirements by Q2 2010	Ÿ As new IFRS standards are finalized we will continue to assess the impact on our accounting policies
Ÿ Address interim and annual MD&A disclosure requirements for IFRS	Ÿ Pro forma financial statements including major notes requirements have been developed
	Ÿ Periodic external disclosures are now complete
Ÿ Prepare an opening balance sheet under IFRS as at January 1, 2010, and quarterly 2010 comparatives for reporting commencing in 2011	Ÿ We have prepared our opening balance sheet and our 2010 quarterly comparative financial statements are in progress with earlier quarters substantially complete
Information technology and data systems	
Ÿ Identify the impacts on our general ledger and accounting feeder systems as a result of the accounting policy and presentation changes under IFRS by Q4 2009	Ÿ Changes to existing systems have been developed, tested and implemented
Ÿ Ensure that IFRS systems remain compliant throughout the transition and implementation phase	Ÿ Process and system controls that apply in the current Canadian GAAP production environment remain in place, and where applicable controls have been modified or added to manage the IFRS conversion and ongoing production of IFRS-based financial statements
Ÿ Assess the impact, and make modifications where necessary to data systems and reporting and analysis tools outside the general ledger and accounting feeder systems	Ÿ Accounting and general ledger systems and development of systems outside the general ledger and accounting feeder systems that are critical for interim reporting in 2011 were completed in 2010
Impact on business activities	
Ÿ Review products and lines of business impacted by the conversion to IFRS for profitability, pricing, product design and asset-liability management by Q3 2009	Ÿ We have completed our review of the impact of IFRS on products and lines of business. The implementation of IFRS on January 1, 2011 is not expected to have a material impact on our business activities. We are monitoring developments with respect to future accounting changes, which are expected to have a more significant impact on our business activities
Ÿ Review all loan and credit facility documents to ensure compliance under IFRS by Q3 2010	Ÿ Covenants within existing credit facilities have been reviewed internally with no breaches identified
Ÿ Determine the impact of IFRS changes on capital requirements	Ÿ The impact of conversion on capital requirements is not expected to be material due to the phase-in provisions
Disclosure Controls and Procedures and Internal Control over Financial Reporting	
Ÿ Identify IFRS policy and related process changes for 2011 reporting (and 2010 comparatives) and assess necessary modifications to our processes and reports	Ÿ Our existing ICFR and DC&P have been maintained and additional controls and sign-off processes have been established for the preparation of 2010 comparative financial statements and MD&A disclosure
Ÿ Review all key controls and processes in our internal control over financial reporting (“ICFR”) and our disclosure controls and procedures (“DC&P”) under IFRS to ensure the integrity of reporting by Q4 2010	Ÿ Our ICFR and DC&P have been reviewed in light of IFRS policy and related process changes. The required impacts and changes to our ICFR and DC&P have been identified and will be implemented in conjunction with 2011 reporting. The impacts are not significant to our existing ICFR and DC&P

Opening Consolidated Balance Sheet Reconciliation

The following table reconciles the Canadian GAAP Consolidated Balance Sheet to the IFRS Consolidated Balance Sheet as at January 1, 2010. The Canadian GAAP balances have been presented in a format that is consistent with the presentation under IFRS. This includes:

- HFT and AFS bonds and stocks have been renamed as debt securities and equity securities, respectively;
- Policy loans, which were previously included in other invested assets, are presented separately;
- Property and equipment and deferred tax assets are presented as distinct line items; and
- Actuarial liabilities and other policy liabilities and amounts on deposit are presented as investment contracts and insurance contracts

The adjustments to our opening balance sheet have been identified, analyzed and represent our estimate of the impacts to our opening balance sheet position based on current policy choices. These estimates and current policy choices may be subject to change until the issuance of our 2011 Annual Consolidated Financial Statements.

		IFRS ADJUSTMENTS				
($ millions) As at January 1, 2010	Canadian GAAP	Reclass[1]	Consolidation[2]	Asset & Contract Remeasurement[3]	IFRS 1 Exemptions & Other[4]	Estimated IFRS
Assets						
Cash, cash equivalents and short-term securities	11,868	19	47	–	–	11,934
Debt securities[1]	61,307	–	288	(7,680)	–	53,915
Equity securities[1]	4,966	–	(11)	14	–	4,969
Mortgage and loans	19,449	–	405	7,067	–	26,921
Derivative assets	1,382	–	65	8	–	1,455
Other invested assets[1]	1,077	–	19	30	–	1,126
Policy loans[1]	3,303	–	(1)	–	–	3,302
Investment property	4,877	(402)	–	71	–	4,546
Other assets[1]	3,307	34	(21)	(12)	(392)	2,916
Reinsurance assets	–	3,334	–	9	–	3,343
Deferred tax asset[1] [2]	1,054	–	(12)	127	143	1,312
Property and equipment[1]	156	523	–	(180)	–	499
Intangible assets	926	–	–	–	–	926
Goodwill	6,419	–	–	–	(1,829)	4,590
Investments for account of segregated fund holders[1]	–	81,302	(754)	–	–	80,548
Total Assets	120,091	84,810	25	(546)	(2,078)	202,302
Liabilities and Equity Liabilities						
Insurance contracts[1]	88,939	(1,649)	(60)	(374)	–	86,856
Investment contracts[1]	–	4,899	–	16	–	4,915
Derivative liabilities	1,257	–	26	11	–	1,294
Deferred tax liabilities[2]	58	–	–	(2)	(44)	12
Other liabilities[1]	5,374	258	808	44	209	6,693
Senior debentures	3,811	–	(1,660)	–	–	2,151
Innovative capital instruments	–	–	1,644	–	–	1,644
Subordinated debt	3,048	–	–	–	–	3,048
Deferred net realized gains	225	–	–	(225)	–	–
Insurance contracts for account of segregated fund holders[1]	–	75,047	(754)	–	–	74,293
Investment contracts for account of segregated fund holders[1]	–	6,255	–	–	–	6,255
Total Liabilities	102,712	84,810	4	(530)	165	187,161
Non-controlling interests	42	(24)	–	–	(18)	–
Total Equity[2]	17,337	24	21	(16)	(2,225)	15,141
Total Equity and Liabilities	120,091	84,810	25	(546)	(2,078)	202,302

(1) These balances have been presented in a format consistent with the presentation under IFRS.

(2) Adjustments are shown on a gross basis with the related tax expense (recovery) recorded in the Deferred tax liabilities or Deferred tax asset lines. Changes to the Total Equity line are on a net of tax basis.

Explanation of Significant Adjustments from Canadian GAAP to IFRS

1. Reclassification

These adjustments represent changes in presentation in the Consolidated Balance Sheets as prescribed by IFRS. The significant changes include:

(i) *Reinsurance assets and insurance contracts*
Canadian GAAP allows reinsurance assets, representing the portion of the insurance contract liabilities covered by reinsurance arrangements, to be netted against actuarial and other policy liabilities. Under IFRS, this netting is not permitted, resulting in the establishment of a reinsurance asset and an increase in the insurance contract liability.

(ii) *Investments for account of segregated fund holders, and Insurance contracts and Investment contracts for account of segregated fund holders*
Under Canadian GAAP, assets held to cover liabilities related to segregated funds are required to be reported separately from the general fund assets and liabilities of the Company. IFRS requires these balances be included in total assets and total liabilities. Segregated fund liabilities that are classified as investment contracts are presented separately from insurance contract liabilities.

2. Consolidation

We have changed our accounting and measurement for certain investments in joint ventures and special purpose entities under IFRS. Under Canadian GAAP, our investments in joint ventures are reported using the proportionate consolidation method. Under IFRS we have chosen to account for these investments using the equity method. In addition, under IFRS, we are required to consolidate certain special purpose entities ("SPEs") where we have a controlling interest, based on the substance of the relationship between the Company and the SPE. We have also consolidated the innovative capital instruments, SLEECS, which were issued through Sun Life Capital Trust. These adjustments do not have a significant impact on our total equity or net income on a go forward basis.

3. Assets and Contract Remeasurement

These adjustments reflect differences in measurement and classification under IFRS, which are primarily related to assets, insurance contracts and investment contracts. The most significant change relates to debt instruments not quoted in an active market that are designed as HFT or AFS and measured at fair value under Canadian GAAP. These instruments are classified as loans and receivables under IFRS and as a result have been recorded as mortgages and loans and measured at amortized cost. The impact from this measurement difference in retained earnings is significantly offset as these assets support insurance contract liabilities.

4. IFRS 1 Exemptions and Other

IFRS 1, *First time adoption*, ("IFRS 1") is a financial reporting standard that stipulates the requirements for an entity that is preparing IFRS compliant statements for the first time, and applies at the time of changeover. Adjustments in this column reflect the optional exemptions and mandatory exceptions available under IFRS 1 and other differences in measurement, which include adjustments related to employee benefits, goodwill impairment, share based payments and the related income tax amounts.

Opening Equity Reconciliation

The following table provides a reconciliation between the total equity reported under Canadian GAAP as at the Transition Date to opening equity under IFRS. The adjustments are presented net of tax and relate to optional elections made under IFRS 1, mandatory accounting policy differences and certain policy choices made upon transition to IFRS. The adjustments to our opening equity position have been identified, analyzed and represent our estimate of the impacts to our opening equity position based on current policy choices. These estimates and current policy choices may be subject to change until the issuance of our 2011 Annual Consolidated Financial Statements.

IFRS Opening Equity Reconciliation – January 1, 2010

($ millions)	Item	Capital, Non-controlling Interests and Contributed Surplus	Accumulated OCI	Retained Earnings	Estimated Total Equity
Total as reported under Canadian GAAP		9,000	(2,545)	10,882	17,337
Adjustments to total equity (net of tax):					
IFRS 1 Optional Exemptions					
Cumulative foreign currency translation adjustments	1	–	2,637	(2,637)	–
Recognition of deferred actuarial losses on defined benefit plans	1	–	–	(329)	(329)
Accounting Policy Differences					
Impairment of goodwill	2	–	–	(1,768)	(1,768)
Share-based compensation		(52)	–	(76)	(128)
Remeasurement of assets	3	–	–	(234)	(234)
Remeasurement of insurance contracts	4	–	–	254	254
Remeasurement of investment contracts		–	–	(36)	(36)
Consolidation of special purpose entities	5	–	–	21	21
Derivatives and hedge accounting		–	40	(40)	–
Reclassification of non-controlling interests		24	–	–	24
Total adjustments to equity under IFRS		(28)	2,677	(4,845)	(2,196)
Total as reported under IFRS		8,972	132	6,037	15,141

Explanation of Significant Adjustments from Canadian GAAP to IFRS

1. IFRS 1 Optional Exemptions *(Choice)*

IFRS 1 requires retrospective application of all IFRS standards with certain optional exemptions and mandatory exceptions. Where the information for retrospective application of a standard is not readily available, impractical or is cost prohibitive, we have elected to take the following optional exemptions available under IFRS 1.

(i) The option to reset all cumulative foreign currency translation differences recorded in accumulated OCI to zero through retained earnings
(ii) The option to recognize all cumulative unrecognized actuarial gains and losses on defined benefit plans under Canadian GAAP. The cumulative amount of actuarial losses recorded on our defined benefit pension plans and other benefits plans has been recognized in retained earnings.
(iii) We have taken the option not to restate the accounting for business combinations or acquisitions made prior to the Transition Date. As a result no adjustments were required to retained earnings or other balances as a result of the adoption of IFRS.

Other IFRS standards contain mandatory accounting rules for classification and measurement as well as some choices. The explanations for the key remaining adjustments identify the nature of the policy difference.

2. Impairment of Goodwill *(Mandatory)*

Canadian GAAP	IFRS
Goodwill is assessed for impairment annually by comparing the carrying values of the appropriate reporting units to their respective fair values. Our reporting units align substantially with our reportable segments – SLF Canada, SLF U.S., MFS, SLF Asia, and Corporate.	Goodwill is assessed for impairment at a more granular level than under Canadian GAAP. The more granular units under IFRS are referred to as cash generating units ("CGUs"), which is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Reporting units such as SLF Canada and SLF U.S, now consist of a number of CGU's. Goodwill acquired on prior business combinations has been allocated to the CGU's expected to benefit from the combination at the time of the acquisition.

As a result of this accounting policy difference, we have recorded a goodwill impairment charge to opening equity which relates to substantially all of the goodwill recorded on the acquisition of Keyport Life Insurance Company in the United States in 2001 ($1.1 billion) allocated to the Fixed Annuity CGU within SLF U.S. and a portion of the goodwill recorded on the acquisition of Clarica in Canada in 2002 ($0.6 billion) allocated to the Individual business in SLF Canada. This impairment charge reflects the application of IFRS standards based on the economic environment at the Transition Date.

3. Remeasurement of Assets *(Choice/Mandatory)*

The table below highlights the measurement differences upon transition to IFRS on invested assets and property and equipment. These assets support insurance contracts, investment contracts or surplus.

Canadian GAAP	IFRS
a) Real estate Properties held to earn rental income or capital appreciation, whether or not any part of the property is owner occupied, are measured using the moving average market method where the carrying value is adjusted towards fair value at 3% of the difference each quarter. Similarly, any realized gains or losses are deferred and amortized into income at the rate of 3% of the unamortized balance each quarter.	Investment property (Choice) Properties held predominantly to earn rental income or capital appreciation are classified as investment property and can be measured using either the fair value or cost model. We have chosen to measure these properties using the fair value model at each reporting period with the change reported in income. Realized gains or losses are recorded in income at the time of sale.
	Property and equipment (Choice) The remaining properties with significant owner occupancy are classified as property and equipment under IFRS and can be measured using the cost model or revaluation model We have chosen to measure these properties using the cost model, which measures the property at cost less accumulated depreciation. Realized gains or losses are recorded in income at the time of sale.
	Deferred net realized gains (Mandatory) The unamortized balance of realized gains or losses under Canadian GAAP has been reversed on transition to IFRS.
b) Private debt instruments Private debt Instruments not quoted in an active market are measured at fair value	(Mandatory) Private debt instruments not quoted in an active market are considered loans and receivables and are recorded at amortized cost under IFRS
c) Limited partnerships and private equities Investments in limited partnerships and private equities that are not quoted in an active market are measured at cost.	(Mandatory) Under IFRS the measurement of these investments has changed to fair value, where the fair value can be reliably measured. For those investments where fair value cannot be reliably measured, they continue to be measured at cost.

In reporting periods after the Transition Date, the change in investment income on these invested assets and property and equipment will consist of rental income, depreciation expense, mark to market gains or losses and realized gains or losses. This change in income will be substantially offset by the change in insurance contract liabilities where the assets support those liabilities.

4. Remeasurement of Insurance Contracts *(Mandatory)*

Canadian GAAP	IFRS
Insurance contracts are determined in accordance with accepted actuarial practice and any requirements of OSFI. The valuation of these contract liabilities is consistent with the Canadian Asset Liability Method ("CALM").	Under IFRS, contract classification determines the accounting and measurement basis. Our existing life, health and annuity policies will be classified as either insurance contracts, investment contracts or service contracts under IFRS. The majority of our general fund contracts will retain their classification as insurance contracts under IFRS (representing more than 90% of the Canadian GAAP insurance liabilities). The CALM method of valuation of insurance contracts satisfies the IFRS 4 requirements until the adoption of a comprehensive new standard on insurance contracts, which is expected to be applicable no earlier than 2013.

Under Canadian accepted actuarial practice, the value of the insurance contract liabilities is determined by reference to the carrying value of the assets supporting those liabilities. As a result, for assets supporting insurance contracts, the impact to equity from asset measurement differences between Canadian GAAP and IFRS, as noted in 3 above, is significantly offset by the associated adjustment to insurance contract liabilities.

5. Consolidation of Special Purpose Entities *(Mandatory)*

Canadian GAAP	IFRS
Consolidation of an entity is based on one of two models, the variable interests model and the voting interests model. Under the variable interests model, entities are evaluated as variable interest entities based on their equity investment at risk. If an entity is not within the scope of the variable interests model, then it is analyzed using the voting interests model, being the continuing power to govern the financial and operating policies of an entity.	Consolidation under IFRS is based on control which is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. A special purpose entity ("SPE") is an entity created to accomplish a narrow and well-defined objective. The determination of control includes an analysis of the risks and rewards associated with an SPE.

IFRS requires the consolidation of certain securitized off-balance sheet structures, which were not consolidated under Canadian GAAP. These include collateralized mortgage obligations, collateralized debt obligations and synthetic collateralized debt obligations, which have been recorded as assets on the balance sheet, with an offsetting liability. The retained interest in these special purpose entities was recorded at fair value under Canadian GAAP whereas certain consolidated balances under IFRS are measured at amortized cost, resulting in an adjustment to equity.

Reported Net Income

The key impacts on our net income under IFRS is set out below. These items do not represent a complete list of all changes that will occur as a result of our transition to IFRS. These items have been identified, analyzed and represent our estimate of the impacts to our net income based on current policy choices. These estimates and current policy choices may be subject to change until the issuance of our 2011 Annual Consolidated Financial Statements.

Share-based Compensation

Canadian GAAP	IFRS
Share-based payment awards issued by MFS that are based on their own shares are accounted for as equity-settled share-based payments. Compensation expense is determined based on the fair value of the awards at the date of grant. Employees are only able to request the repurchase of their shares by MFS after a specified holding period, the length of which was sufficient for the awards to be accounted for as equity settled share-based payment awards.	Share-based payment awards issued by MFS that are based on their own shares are required to be accounted for as cash settled share-based payment awards under IFRS 2, Share-based Payments. The vested and unvested awards, as well as the shares that have been issued under these plans, are recognized as liabilities because employees have the right to request the repurchase of their shares by MFS. The liabilities are measured at fair value at each reporting period until they are vested, exercised and repurchased by MFS.

The current Canadian GAAP basis provides a comparable compensation expense between reporting periods because the expense is fixed at the date a grant is made. The expense under IFRS will vary with the change in fair value, if any, of the share-based awards and underlying shares, thereby increasing net income volatility. The movement in fair value of both the underlying shares and the share-based payment awards at MFS are influenced by a number of factors including the number of share-based awards outstanding, the financial performance of MFS and changes in option values of MFS shares as determined by a Black-Scholes option-pricing model. Based on the number of awards granted, exercised and vested, as well as an appreciation of MFS shares of 4% per quarter, the additional compensation expense that would be recorded under IFRS would be approximately $20 – $25 million per quarter.

Remeasurement of Investment Contracts

Canadian GAAP	IFRS
Contracts that do not transfer significant insurance risk but do transfer financial risk are not distinguished from insurance contracts and are measured consistently with the Canadian Asset Liability Method ("CALM").	Contracts, classified as investment contracts, are financial liabilities and measured at fair value through profit or loss or at amortized cost.

More than 90% of the current Canadian GAAP insurance liabilities will retain their classification as insurance contracts under IFRS. A significant component of our general fund investment contract balance under IFRS at the Transition Date of January 1, 2010 relates to the following series of medium-term notes ("MTNs"):

MTN Series	Maturity	Status as at December 31, 2010	Amount (US$ millions)
Series 1	July 6, 2010	Redeemed	900
Series 2	July 6, 2011	Outstanding	900
Series 3	October 6, 2013	Outstanding	900

Under IFRS, these liabilities classified as investment contracts are no longer valued using CALM. Instead, both the liabilities and the supporting assets on these contracts are fair valued, with the difference between the asset and liability movement reflected in net income. Until the MTNs mature in 2013, we may experience quarterly earnings volatility as the fair value of the assets and the fair value of the liabilities in a particular reporting period may not fully offset. This potential volatility could result in a favourable or unfavourable impact on net income in a reporting period.

Derivatives and Hedge Accounting

Canadian GAAP	IFRS
Hedge accounting can be applied, if certain conditions are met using the critical terms matching method for both assessing effectiveness and measuring ineffectiveness.	IFRS does not permit the use of the critical terms matching method for the assessment and measurement of effectiveness in a hedging relationship.

Certain hedging strategies accounted for using hedge accounting under Canadian GAAP do not qualify for hedge accounting under IFRS. For example, we use cross-currency swaps to hedge the foreign currency exposure related to a portion of SLF Canada surplus assets held in U.S. dollar denominated bonds. Under IFRS, a divergence in movement between Canadian and U.S. swap curves will result in income volatility. A parallel increase/(decrease) of 25 basis points in the differential between the Canadian and U.S. swap curve will result in a negative/(positive) earnings impact of approximately $30 million, based on the current size of the investment portfolio and the related cross-currency swaps. While we will not apply hedge accounting under IFRS on this portfolio, the investment strategy and the related hedges continue to be economically viable. This potential volatility could result in a favourable or unfavourable impact on net income in a reporting period.

Earnings per Share

Certain innovative Tier 1 instruments issued by the Company (SLEECS Series A and SLEECS Series B) contain features which enable the holders to convert their securities into preferred shares of Sun Life Assurance. Immediately following this conversion, we have the option to settle the preferred shares with cash or common shares of SLF Inc. Under Canadian GAAP, the potential for dilution is evaluated based on our past experience and expectation that these securities would be settled in cash rather than shares. Under IFRS, diluted EPS must be based on the presumption that these innovative Tier 1 instruments will result in the ultimate issuance of SLF Inc. common shares. The level of dilution to EPS is dependent on the Company's earnings and share price and the number of convertible instruments outstanding. If these instruments were converted into preferred shares of Sun Life Assurance, 46 million preferred shares of Sun Life Assurance valued at $25 per share would be issued, and these preferred shares would be convertible into Sun Life Financial common shares based on trading price at that time. If the SLEECS Series A are redeemed at their first par call date in 2011, the number of Sun Life Assurance preferred shares issued, if converted, would be reduced to 8 million. Based on a level of earnings consistent with the full year 2010 earnings under Canadian GAAP and a SLF Inc. common share price of $30, the dilution impact on full year EPS, in a year where both SLEECS A and B are outstanding, would be $0.10 per share. If the SLEECS Series A are redeemed, the full year dilution would be reduced to $0.02 per share.

In addition, the diluted EPS under IFRS excludes the impact of stock-based compensation equity awards of MFS, which are accounted for as cash-settled liabilities under IFRS. These awards result in an adjustment to the net income used in the diluted EPS calculation under Canadian GAAP.

Future Accounting Standards

On July 30, 2010, the International Accounting Standards Board ("IASB") issued an exposure draft for comment, which sets out recognition, measurement and disclosure principles for insurance contracts. The insurance contracts standard under IFRS, as currently drafted, proposes that liabilities be discounted at a rate that is independent of the assets used to support those liabilities. This is in contrast to current rules under Canadian GAAP, where changes in the measurement of assets supporting actuarial liabilities are largely offset by a corresponding change in the measurement of the liabilities.

We have reviewed the exposure draft and submitted a response to the IASB on November 30, 2010. A number of Canadian industry members, groups and associations along with professional services firms also submitted responses to the IASB on this exposure draft. It is expected that measurement changes on insurance contracts, if implemented as drafted, will result in fundamental differences from current provisions in Canadian GAAP, which will likely have a significant impact on our business activities. In addition, the IASB has a project on accounting for financial instruments, with changes to classification, measurement, impairment and hedging. It is expected the mandatory implementation of both these standards will be no earlier than 2013.

The IASB continues to make changes to other IFRSs and has a number of ongoing projects. We continue to monitor all of the IASB projects that are in progress to ensure timely implementation and accounting.

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 Company's Chief Executive Officer ("CEO"), Executive Vice-President and Chief Financial Officer ("CFO") and Executive Vice-President, Business Development and General Counsel, on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of the effectiveness of our disclosure controls and procedures, as defined under rules adopted by the Canadian securities regulatory authorities and the SEC, as of December 31, 2010, 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, 2010.

Management's Report on 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 our financial reporting and the preparation of our financial statements in accordance with GAAP.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. 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.

We conducted an assessment of the effectiveness of our internal control over financial reporting, as of December 31, 2010, 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 that assessment, we have concluded that our internal control over financial reporting was effective as of December 31, 2010.

Our internal control over financial reporting, as of December 31, 2010, has been audited by Deloitte & Touche LLP, the Company's Independent Registered Chartered Accountants, who also audited our Consolidated Financial Statements for the year ended December 31, 2010. As stated in the Report of Independent Registered Chartered Accountants, they have expressed an unqualified opinion on our internal control over financial reporting as of December 31, 2010.

Changes in Internal Control over Financial Reporting

No changes were made in our internal control over financial reporting for the period beginning January 1, 2010, and ended December 31, 2010 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Non-GAAP Financial Measures

Management evaluates the Company's performance on the basis of financial measures prepared in accordance with GAAP and certain non-GAAP financial measures. We believe that these non-GAAP financial measures provide information useful to investors in understanding our performance and facilitate the comparison of the quarterly and full-year results of our 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 SLF Inc.'s annual and interim MD&A and the Supplementary Financial Information packages that are available on www.sunlife.com under Investors – Financial Results & Reports.

Management measures the Company's performance based on operating earnings and financial measures based on operating earnings, including operating EPS and operating ROE, that exclude certain items that are not operational or ongoing in nature. Other non-GAAP measures that we use include:

(i) financial performance measures that are prepared on a constant currency basis, which exclude the impact of currency fluctuations;
(ii) adjusted revenue, which excludes the impact of currency and fair value changes in HFT assets and derivative instruments from total revenue;
(iii) pre-tax operating profit margin ratios for MFS, the denominator of which excludes certain investment income and includes certain commission expenses, as a means of measuring the underlying profitability of MFS;
(iv) assets under management, mutual fund assets, managed fund assets and other AUM; and
(v) the value of new business is used to measure overall profitability, which is based on actuarial amounts for which there are no comparable amounts under GAAP.

The following amounts were not included in the Company's operating earnings in the prior three years.

In the first quarter of 2009, the Company incurred an after-tax charge of $27 million for restructuring costs taken as part of the Company's actions to reduce expense levels and improve operational efficiency.

In the fourth quarter of 2008, the Company sold its 37% interest in CI Financial for $2.2 billion. The after-tax gain of $825 million was not included in the 2008 operating earnings.

The impact of the items described above on the Company's operating earnings and operating EPS is shown in the following tables.

Reconciliation of Operating Earnings

($ millions)	2010	2009	2008
Reported Earnings (GAAP)	1,583	534	785
After-tax gain (loss) on special items			
Gain on sale of interest in CI Financial	–	–	825
Restructuring costs to reduce expense levels	–	(27)	–
Total special items	–	(27)	825
Operating earnings	1,583	561	(40)

Impact of Special Items on Diluted Operating EPS

($ per share)	2010	2009	2008
EPS – Reported (GAAP)	2.76	0.94	1.37
Net gains (losses) on special items	–	(0.05)	1.47
EPS – Operating	2.76	0.99	(0.10)

Our MCCSR sensitivities are forward-looking non-GAAP financial measures, for which there are no directly comparable measures under GAAP. It is not possible to provide a reconciliation for our market sensitivities as they are forward-looking information. We believe it is only possible to provide ranges of the assumptions used in determining those non-GAAP measures, as actual results can fluctuate significantly inside or outside those ranges and from period to period.

Financial Performance

2010 Consolidated Results of Operations

Common Shareholders' Net Income

Common shareholders' net income for the twelve months ended December 31, 2010 was $1,583 million, compared to $534 million for the same period in 2009. Operating earnings for the twelve months ended December 31, 2010 were $1,583 million, compared to operating earnings of $561 million for the same period in 2009. In 2010, there was no difference between reported and operating earnings. Operating earnings for the full-year 2009 excluded after-tax charges of $27 million for restructuring costs taken as part of the Company's efforts to reduce expense levels and improve operational efficiency. Operating earnings for the full-year 2008 excluded an after-tax gain of $825 million related to the sale of the Company's interest in CI Financial.

($ millions, unless otherwise noted)	2010	2009	2008
Total net income	1,685	622	857
Less:			
Participating policyholders' net income	9	9	2
Dividends paid to preferred shareholders	93	79	70
Common shareholders' net income	1,583	534	785
Adjusted for special items [1]	–	27	(825)
Operating earnings (loss)	1,583	561	(40)
Basic EPS ($) from:			
Common shareholders' net income	2.79	0.95	1.40
Operating earnings (loss)[1]	2.79	1.00	(0.07)
Diluted EPS ($) from:			
Common shareholders' net income	2.76	0.94	1.37
Operating earnings (loss)[1]	2.76	0.99	(0.10)
Common shareholders' net income (loss) by segment			
SLF Canada	828	866	645
SLF U.S.	301	(465)	(1,016)
MFS	208	152	194
SLF Asia	92	76	33
Corporate	154	(95)	929
Total	1,583	534	785

[1] The items not included in operating earnings are described under the heading Non-GAAP Financial Measures.

Results for the full year 2010 included $173 million related to improvements in equity markets, the favourable impact of asset-liability re-balancing and the favourable impact of the Lincoln U.K. acquisition in the fourth quarter of 2009. Movements in interest rates contributed $34 million to net income in 2010 as interest rate swap movements more than offset the adverse impact of lower interest rates. These favourable impacts were partially offset by increased expense levels from business initiatives in 2010 and $49 million of unfavourable credit impacts.

Net income for the twelve months ended December 31, 2009 was impacted primarily by downgrades of $670 million on our investment portfolio, the negative impact of the implementation of equity- and interest rate-related actuarial assumption updates of $513 million and net impairments of $431 million. These adverse impacts were partially offset by the favourable impact of improved equity markets of $306 million and increased interest rates of $206 million.

Return on Equity

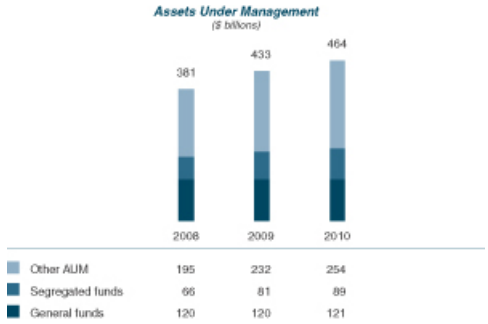
ROE based on common shareholders' net income was 9.9% in 2010, up from 3.4% in 2009 primarily as a result of higher earnings. There was no difference between reported and operating ROE in 2010. Operating ROE in 2009, which does not include after-tax charges of $27 million for restructuring costs taken as part of the Company's efforts to reduce expense levels and improve operational efficiency, was 3.5%.

Assets Under Management

AUM consist of general funds, segregated funds and other AUM[1]. Other AUM includes mutual and managed funds which include institutional and other third-party assets managed by the Company.

Total AUM were $464.2 billion as at December 31, 2010, compared to $432.6 billion as at December 31, 2009. The increase of $31.6 billion between December 31, 2008 and December 31, 2009 resulted primarily from:

(i) positive market movements of $29.7 billion;
(ii) net sales of mutual, managed and segregated funds of $14.9 billion;
(iii) an increase of $2.6 billion from the change in value of HFT assets and non-hedging derivatives;
(iv) business growth of $2.2 billion, mostly in the wealth businesses; partially offset by



(v) a decrease of $17.2 billion from a strengthening Canadian dollar against foreign currencies compared to the prior period exchange rates; and
(vi) a reduction of $631 million from the sale of our life reinsurance business in the fourth quarter of 2010.

General fund assets were $120.9 billion at December 31, 2010, up $0.8 billion, from the December 31, 2009 level. The increase in general fund assets resulted primarily from:

(i) an increase of $2.7 billion from the change in value of HFT assets; and
(ii) business growth of $2.2 billion; partly offset by
(iii) a decrease of $3.4 billion from a strengthening Canadian dollar against foreign currencies compared to the prior period exchange rates; and
(iv) a reduction of $631 million arising from the sale of our life reinsurance business in the fourth quarter of 2010

Segregated fund assets were $88.9 billion as at December 31, 2010, compared to $81.3 billion as at December 31, 2009. The increase in segregated fund assets was due to an increase of $7.5 billion from equity market improvements and $2.6 billion from net sales, partially offset by the unfavourable impact of currency of $2.5 billion.

Other AUM, which includes MFS assets under management of $221.3 billion, grew to $254.5 billion, $23.2 billion higher than as at December 31, 2009. Improved market conditions increased values by $22.2 billion and net sales for the year further increased other AUM by $12.3 billion. These increases were partially offset by the unfavourable impact of currency of $11.3 billion.

Revenue

Under Canadian GAAP, revenues include (i) regular premiums received on life and health insurance policies and fixed annuity products, net of premiums ceded to reinsurers; (ii) net investment income comprised of income earned on general fund assets, realized gains and losses on AFS assets and changes in the value of HFT assets and derivative instruments; and (iii) fee income received for services provided. Under Canadian GAAP, segregated fund deposits, mutual fund deposits and managed fund deposits are not included in revenues. As a result, revenue does not fully represent sales taking place during the respective periods.

Net investment income can experience volatility arising from quarterly fluctuation in the value of HFT assets. The bonds and stocks which support actuarial liabilities are designated as HFT and, consequently, changes in fair values of these assets are recorded in net investment income in our Consolidated Statement of Operations. Changes in the fair values of assets supporting actuarial liabilities are largely offset by a corresponding movement of the liabilities. We perform cash flow testing whereby asset and liability cash flows are projected under various scenarios. When assets backing liabilities are written down in value to reflect impairment or default, we conduct actuarial assessments of the amount of assets required to support our actuarial liabilities. Additional detail on the Company's accounting policies can be found in this MD&A under the heading, Critical Accounting Policies and Estimates.

[1] AUM, mutual fund assets, managed fund assets, other AUM and total AUM are Non-GAAP Financial Measures. See the section under the heading Non-GAAP Financial Measures.

Total Revenue

($ millions)	2010	2009	2008
Premiums			
Annuities	2,836	4,795	3,592
Life insurance	6,255	6,380	5,928
Health insurance	4,407	4,335	4,067
Total premiums	13,498	15,510	13,587
Net investment income (loss)	7,999	9,392	(767)
Fee Income	3,143	2,670	2,743
Total	24,640	27,572	15,563

Our total revenue for the year ended December 31, 2010 decreased to $24.6 billion, down $2.9 billion from 2009. The strengthening of the Canadian dollar relative to average exchange rates for the twelve months of 2009 reduced reported revenues by $1.4 billion. Other impacts on revenue, which exclude the impact of currency, included:

(i) a decrease of $1.3 billion in premium revenue, primarily due to lower fixed annuity premiums in SLF U.S as a result of our decision to de-emphasize this product, partially offset by higher life and health insurance premiums;
(ii) a decrease in net investment income of $970 million primarily from a reduction in net gains on the fair value of HFT assets; partially offset by;
(iii) an increase in fee income of $725 million, due to higher average net asset levels at MFS and growth in fee based businesses in SLF Canada and SLF U.S.

The following table presents the revenue of the Company based on our five business segments. We have also included a line item below labelled “adjusted revenue”, which excludes the impact of changes in currency and mark-to-market impact on HFT assets and derivative instruments, as we believe this provides a more meaningful view of our revenue.

Revenue by Segment

($ millions)	2010	2009
SLF Canada	11,449	11,407
SLF U.S.	8,104	11,714
MFS	1,449	1,251
SLF Asia	1,709	1,813
Corporate	1,929	1,387
Total as reported	24,640	27,572
Impact of currency changes and changes in the value of HFT assets and derivative instruments	2,333	4,963
Total adjusted revenue[1]	22,307	22,609

(1) Adjusted revenue is a non-GAAP Measure.

After adjusting for the impact of currency and fair value changes in HFT assets, 2010 adjusted revenue of $22.3 billion was $302 million lower than in 2009. This decrease was primarily attributable to a reduction in premium income of $1.3 billion, partially offset by increased fee income of $725 million, higher AFS gains of $124 million and a pre-tax gain of $130 million associated with the sale of our life reinsurance business in the fourth quarter of 2010.

Policy Benefits

We have a diverse range of current and future benefit payment obligations that affect overall earnings, such as payments to policyholders, beneficiaries and depositors, net transfers to segregated funds and the increase to actuarial liabilities.

Policy Benefits

($ millions)	2010	2009	2008
Payments to policyholders, beneficiaries and depositors	13,078	13,457	13,775
Net transfers to segregated funds	921	860	539
Increase (decrease) in actuarial liabilities	2,909	7,697	(4,429)
Total	16,908	22,014	9,885

Payments to policyholders, beneficiaries and depositors in 2010 were $13.1 billion, down $379 million from 2009, primarily due to lower death and disability payments.

Changes in actuarial liabilities reflected an increase of $2.9 billion in 2010 compared to $7.7 billion in 2009. The change of $4.8 billion included:

(i) a decrease of $2.4 billion related to a decrease in liabilities on in-force business;
(ii) a decrease of $1.4 billion from a lower level of liabilities arising from new policies; and
(iii) a decrease of $1.0 billion from a lower level of assumption changes relative to 2009

Additional information on changes to our actuarial liabilities can be found in Note 9 to our 2010 Consolidated Financial Statements.

Management Actions and Assumption Changes

We make judgments involving assumptions and estimates relating to our obligations to policyholders, some of which relate to matters that are inherently uncertain. The determination of these obligations is fundamental to our financial results and requires us to make assumptions about equity market performance, interest rates, asset default, mortality and morbidity rates, policy terminations, expenses and inflation, and other factors over the life of our products. Our benefit payment obligations are estimated over the life of our annuity and insurance products, based on internal valuation models, and are recorded in its financial statements, primarily in the form of actuarial liabilities. We review these assumptions each year, generally in the third and fourth quarters, and revise these assumptions, if appropriate.

Management actions (included with changes in valuation method and assumption) are items that affect reported earnings in the period by changing the valuation of policy liabilities in ways other than changes to actuarial methods and assumptions. Examples include changes to investment policies, changes to contractually adjustable product features, and changes to existing reinsurance arrangements or reinsurance terms.

In 2010, the net impact of management actions and the review and update of actuarial method and assumption changes resulted in an increase in net income of $31 million. Details of changes in assumptions made in 2010 by major category are provided below.

Management Actions and Assumption Changes ($ millions)	**Increase/(Decrease) in net income**	**Comments**
Mortality/Morbidity	173	Largely due to favourable changes to the mortality basis in Individual Insurance in SLF U.S., Reinsurance in Corporate, and mortality/morbidity in the Company's Group businesses in SLF Canada and SLF U.S.
Lapse and other policyholder behaviour	(223)	Reflects the impact of higher persistency as a result of low interest rates in Individual Insurance in SLF U.S., as well as higher lapse rates on term insurance renewals in SLF Canada
Expense	(55)	Impact of reflecting recent experience studies across the Company
Investment returns	16	Primarily from refinements related to re-investment strategies and the impact of Company wide revisions to equity and interest rate return assumptions
Other	120	Primarily model refinements to improve the projection of future cash flows and the restructuring of Sun Life Everbright in SLF Asia
Total	31	

Additional information on estimates relating to our obligation to policyholders, including the methodology and assumptions used in their determination, can be found in the Accounting and Control Matters section of this MD&A under the heading Critical Accounting Policies and Estimates and in Note 9 to our 2010 Consolidated Financial Statements.

Expenses and Other

Expenses & Other

($ millions)	**2010**	2009	2008
Commissions	**1,591**	1,662	1,545
Operating expenses	**3,357**	3,142	2,979
Intangibles amortization	**47**	34	24
Premium taxes	**218**	222	227
Interest expenses	**440**	403	366
Income taxes	**371**	(542)	(343)
Non-controlling interests in net income of subsidiaries	**23**	15	23
Participating policyholders' net income	**9**	9	2
Dividends to preferred shareholders	**93**	79	70
Total	**6,149**	5,024	4,893

Commission expenses decreased by $71 million in 2010 from the 2009 amount of $1.7 billion mainly from lower sales of fixed annuities in SLF U.S.

Operating expenses of $3.4 billion in 2010 were $214 million higher than 2009. The strengthening of the Canadian dollar relative to the foreign currencies reduced 2010 expenses by $206 million compared to 2009 rates. Excluding the impact of currency, expenses increased by $434 million primarily as a result of higher business volumes and project costs for strategic initiatives in SLF Canada, increased incentive compensation at MFS based on improved performance and higher costs from the Lincoln U.K. acquisition in the fourth quarter of 2009 along with integration and new business restructuring costs in SLF U.K.

Interest expense rose by $37 million over 2009 to $440 million in 2010, reflecting the full year cost of debt and preferred share issuances in 2009, as well as the incremental cost of preferred shares issued in May, 2010.

Income Taxes

The Company has a statutory tax rate of 30.5%, which is reduced by various tax benefits such as lower taxes on income subject to tax in foreign jurisdictions, a range of tax exempt investment income sources and other sustainable tax benefit streams that, in combination with a normal level of pre-tax income, decrease the Company's effective tax rate to an expected range of 18% to 22%.

During 2010, we reported a tax expense of $371 million on income before taxes and non-controlling interests of $2,079 million, resulting in an effective tax rate of 17.8%. This compares to a tax recovery of $542 million on income before taxes and non-controlling interests of $95 million in 2009, resulting in a negative effective tax rate of 571%.

In 2010, our tax expense included significant non-recurring items. In the second quarter of 2010 we recorded a tax benefit of $76 million in relation to a favourable judgment received by the Company in a United Kingdom tax litigation case allowing us to carry forward tax losses incurred before 2002 to reduce taxes payable for 2002 and subsequent years. This tax benefit was partially offset by a valuation allowance of $23 million which resulted in a net tax benefit of $53 million representing the portion of the future tax asset that is considered to be more likely than not to be realized.

Further, in December 2010, we sold our life reinsurance business. As a result, our income tax expense was higher than expected as the goodwill associated with this business was not deductible for tax purposes.

The net unfavourable impact of the above items on our tax expense in 2010 was reduced by a higher than expected tax benefit from lower-taxed investment income due to improved market conditions during the year, as well as the favourable resolution of uncertain tax positions, resulting in the overall effective tax rate of 17.8%.

In 2009 we recorded a tax benefit of $174 million as a result of the enactment of the Canadian tax rules relating to CICA Handbook Section 3855 Financial Instruments – Recognition and Measurement. We also released a valuation allowance on future tax assets in the amount of $101 million relating to investment impairment losses previously recorded in SLF U.S. The impact of the above items, combined with losses in higher tax jurisdictions, such as the United States, contributed to the income tax recovery in 2009.

Impact of Currency

We have operations in key markets worldwide, including the United States, the United Kingdom, Ireland, Hong Kong, the Philippines, Indonesia, India, China and Bermuda, and generate earnings in local currencies in these jurisdictions, which are translated into Canadian dollars. The bulk of our exposure to movements in foreign exchange rates is to the U.S. dollar. Items impacting our Consolidated Statement of Operations are translated back to Canadian dollars using average exchange rates for the respective period. For items impacting the Consolidated Balance Sheet, period end rates are used for currency translation purposes.

In general, our net income benefits from a weakening Canadian dollar and is adversely affected by a strengthening Canadian dollar as net income from the Company's international operations is translated back to Canadian dollars. In a period of net losses, the weakening of the Canadian dollar can exacerbate losses. The relative impact of currency in any given period is driven by the movement of currency rates as well as the proportion of earnings generated in our foreign operations. We generally express the impact of currency on net income on a year-over-year basis. During the fourth quarter of 20010 and for the full year 2010, our overall reported net income decreased by $16 million and by $77 million, respectively, as a result of movements in foreign exchange rates.

Fourth Quarter 2010 Performance

Net income attributable to common shareholders was $508 million for the quarter ended December 31, 2010, compared to net income of $296 million in the fourth quarter of 2009. Net income in the fourth quarter of 2010 was favourably impacted by $181 million from improvements in equity markets and $113 million from increased interest rates. This was partially offset by the impact of changes to actuarial estimates and assumptions of $58 million related primarily to mortality, higher levels of expenses, which included several non-recurring items, and the unfavourable impact of currency movements.

Results in the fourth quarter of 2009 benefited from the positive impact of asset-liability re-balancing, improvements in equity markets, increased interest rates and an overall tax recovery. These impacts were partially offset by net impairments, downgrades on the investment portfolio and lower asset reinvestment gains from changes in credit spreads.

Return on equity (ROE) for the fourth quarter of 2010 was 12.4%, compared with 7.6% for the fourth quarter of 2009. The increase in ROE was primarily the result of higher earnings, which increased to $0.88 per share in the fourth quarter of 2010 from $0.52 per share in the fourth quarter of 2009.

Performance by Business Group

SLF Canada had net income of $182 million in the fourth quarter of 2010 compared to $243 million in the fourth quarter of 2009. Earnings in the fourth quarter of 2010 reflected the net unfavourable impact of interest rate movements, including swap spreads, changes to actuarial estimates and assumptions related primarily to mortality and the unfavourable impact of asset-liability re-balancing. This was partially offset by improved equity markets and related tax impacts. Earnings in the fourth quarter of 2009 reflected improvements in equity markets, the favourable impact of asset-liability re-balancing, increased interest rates, and various tax-related items, including a one-time benefit of the tax rate reductions enacted in Ontario.

SLF U.S. had net income of US$263 million in the fourth quarter of 2010 compared to a loss of US$8 million in the fourth quarter of 2009. Results in the fourth quarter of 2010 reflected the favourable impact of improved equity markets, increased interest rates and lower credit impairments and downgrades. The loss in the fourth quarter of 2009 was primarily attributable to net credit impairments, reserve increases for downgrades on the investment portfolio, and lower asset reinvestment gains from changes in credit spreads. This was partially offset by the favourable impact of asset-liability re-balancing, equity markets and increased interest rates

MFS had net income of US$56 million in the fourth quarter of 2010 compared to earnings of US$47 million in the fourth quarter of 2009. The increase in earnings from the fourth quarter of 2009 was primarily due to higher net average assets, which increased to US$214 billion in the fourth quarter of 2010 from US$181 billion in the fourth quarter of 2009 as a result of improved performance in financial markets and strong net sales driven by record gross sales of US$53 billion in 2010.

SLF Asia had net income of $28 million in the fourth quarter of 2010 compared to earnings of $27 million in the fourth quarter of 2009. Earnings in the fourth quarter of 2010 reflected improved results in India as a lower level of sales resulted in reduced levels of new

business strain, which was partially offset by lower earnings in Hong Kong from higher new business strain. The net impact of these items resulted in a level of earnings in the fourth quarter of 2010 that was relatively unchanged from the same period one year ago as earnings in the fourth quarter of 2009 included favourable mortality and credit experience.

The Corporate segment had a net loss of $26 million in the fourth quarter of 2010 compared to a loss of $14 million in the fourth quarter of 2009. SLF U.K. reported a loss of $11 million in the fourth quarter of 2010, compared to net income of $9 million in the fourth quarter of 2009. Results were lower primarily as a result of downgrades on the investment portfolio and increased expense levels related to increased regulatory costs and other business restructuring. Results in the fourth quarter of 2009 in SLF U.K. reflected the adverse impact of changes in interest rates and equity values, including hedge impacts. In Corporate Support, the loss in the fourth quarter of 2010 was $15 million, compared to a loss of $23 million one year earlier. The improvement year-over-year was primarily attributable to improved results in the life reinsurance business, partially offset by increased expense levels in Corporate Support and lower income tax benefits relative to the prior year. On December 31, 2010, we completed the sale of our life reinsurance business. The net gain on sale was approximately $1 million.

Additional Financial Disclosure

Revenues for the fourth quarter of 2010 were $4.0 billion, down $959 million from the comparable period a year ago. The overall decrease in revenue included a reduction of $59 million from the strengthening of the Canadian dollar relative to average exchange rates in the fourth quarter of 2009. Other impacts on revenue, which exclude the impact of currency, included:

(i) a decrease in net investment income of $1.0 billion. This was primarily due to a reduction in the change in fair value of HFT assets and non-hedging derivatives of $1.2 billion, which was partially offset by a pre-tax gain of $130 million associated with the sale of our life reinsurance business recorded in investment income and reduced asset provisions; partially offset by
(ii) an increase of $44 million in premium revenue. Reduced annuity premiums in SLF U.S. were more than offset by higher annuity premiums in SLF Canada and growth in health premiums; and
(iii) an increase in fee income of $120 million on growth in fee-based businesses, including MFS, SLF Canada and SLF U.S.

AUM increased $9.5 billion between September 30, 2010 and December 31, 2010. The increase in AUM related primarily to:

(i) positive market movements of mutual, managed and segregated funds totalling $17.4 billion; and
(ii) net sales of mutual, managed and segregated funds of $5.2 billion; partially offset by
(iii) a decrease of $10.4 billion from the strengthening of the Canadian dollar against foreign currencies;
(iv) a decrease of $1.7 billion from the change in fair value of HFT assets and non-hedging derivatives; and
(v) a reduction of $881 million, which included $309 million in goodwill, arising from the sale of our life reinsurance business.

Quarterly Information

The following table provides a summary of our results for the eight most recently completed quarters. A more complete discussion of our historical quarterly results can be found our interim MD&A's.

($ millions, unless otherwise noted)	2010				2009			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Common shareholders' net income (loss)								
Operating[1]	**508**	**453**	**213**	**409**	296	(140)	591	(186)
Reported	**508**	**453**	**213**	**409**	296	(140)	591	(213)
Diluted EPS (in dollars)								
Operating[1]	**0.88**	**0.79**	**0.37**	**0.72**	0.52	(0.25)	1.05	(0.33)
Reported	**0.88**	**0.79**	**0.37**	**0.72**	0.52	(0.25)	1.05	(0.38)
Basic Reported EPS (in dollars)	**0.89**	**0.80**	**0.38**	**0.72**	0.53	(0.25)	1.06	(0.38)
ROE annualized								
Operating[1]	**12.4%**	**11.2%**	**5.4%**	**10.5%**	7.6%	-3.5%	14.9%	-4.7%
Reported	**12.4%**	**11.2%**	**5.4%**	**10.5%**	7.6%	-3.5%	14.9%	-5.5%
Common shareholders' net income (loss) by segment								
SLF Canada	**182**	**262**	**146**	**238**	243	219	210	194
SLF U.S.	**267**	**41**	**(95)**	**88**	(9)	(413)	364	(407)
MFS	**57**	**55**	**47**	**49**	49	43	32	28
SLF Asia	**28**	**37**	**23**	**4**	27	13	19	17
Corporate	**(26)**	**58**	**92**	**30**	(14)	(2)	(34)	(45)
Total	**508**	**453**	**213**	**409**	296	(140)	591	(213)
Total revenue	**4,034**	**7,745**	**6,806**	**6,055**	4,993	8,831	8,720	5,028
Total AUM ($ billions)	**464**	**455**	**434**	**435**	433	412	397	375

[1] Operating earnings, diluted operating EPS and operating ROE are non-GAAP measures and exclude the items described under the heading Non-GAAP Financial Measures.

Third Quarter 2010

Net income of $453 million in the third quarter of 2010 was favourably impacted by improved equity market conditions, and assumption changes and management actions. We increased our mortgage sectoral allowance in anticipation of continued pressure in the U.S. commercial mortgage market, however overall credit experience continued to show improvement over the prior year. The net impact from interest rates on third quarter results was not material as the unfavourable impact of lower interest rates was largely offset by favourable movement in interest rate swaps used for asset-liability management.

Second Quarter 2010
Net income of $213 million in the second quarter of 2010 was adversely impacted by declining equity markets and unfavourable interest rate movements. These adverse impacts were partially offset by the favourable impact of fixed income investing activities on policy liabilities, and an overall tax recovery during the quarter.

First Quarter 2010
Net income of $409 million in the first quarter of 2010 benefited from positive equity market performance, favourable movements in interest rates and the positive impact of asset-liability re-balancing. Our acquisition in the fourth quarter of 2009 in the U.K. contributed to the improved performance in our U.K. operations. Higher costs associated with writing increased volumes of new business offset some of the gains from improved economic conditions.

Fourth Quarter 2009
Net income of $296 million for the fourth quarter of 2009 reflected a return to more favourable market conditions, including the positive impact of asset-liability re-balancing, improvements in equity markets and increased interest rates, and benefited from an overall tax recovery. These impacts were partially offset by net impairments, downgrades on our investment portfolio and lower asset reinvestment gains from changes in credit spreads.

Third Quarter 2009
The loss of $140 million for the third quarter of 2009 was largely as a result of the implementation of equity- and interest rate-related actuarial assumption updates of $513 million and reserve increases of $194 million for downgrades on our investment portfolio, partially offset by reserve releases of $161 million as a result of favourable equity markets.

Second Quarter 2009
Net income of $591 million in the second quarter of 2009 was favourably impacted by reserve releases as a result of higher equity markets, increased interest rates and the positive impact of narrowing credit spreads. Strong results from improvements in capital markets in the quarter were partially offset by increased reserves for downgrades on our investment portfolio, changes in asset default assumptions in anticipation of future credit-related losses, and credit impairments.

First Quarter 2009
The loss of $213 million in the first quarter of 2009 was due to reserve strengthening, net of hedging, related to equity market declines; reserve increases for downgrades on our investment portfolio; and credit and equity impairments. Excluding after-tax charges of $27 million for restructuring costs taken as part of our actions to reduce expense levels and improve operational efficiency, we reported an operating loss of $186 million.

Business Segment Results

We manage our operations and report our financial results in five business segments as described in the Overview section of this MD&A. The following section describes the operations and financial performance of SLF Canada, SLF U.S., MFS, SLF Asia and Corporate.

SLF Canada

Business Profile

SLF Canada is a market leader with a client base representing one in five Canadians. Our distribution breadth, strong service and technology infrastructure and brand recognition provide an excellent platform for growth. SLF Canada's three business units – Individual Insurance & Investments, Group Benefits and Group Wealth (which includes our Group Retirement Services business) – offer a full range of protection and wealth accumulation products and services to individuals and corporate clients.

Strategy

We help clients achieve lifetime financial security throughout their life stages by providing products and advice on insurance and investments through multiple distribution touch points. We strengthen our sponsor and advisor partnerships with value-added insight, service and advice to offer increased value to these partners. Additional value is created by enhancing productivity and client service.

We will grow our business organically by leveraging our strong brand recognition and client base of eight million to offer additional value added products and services. We will continue to build strategic partnerships to rapidly build capabilities to capitalize on opportunities.

2010 Business Highlights

- Individual life and health insurance sales grew by 20% to $201 million and reflected a more profitable product mix driven by strong sales of term life insurance and a successful re-entry into the participating insurance market. Sales of individual fixed interest investment products, including accumulation annuities ("AA"), guaranteed investment certificates ("GICs") and payout annuities, grew by 15% to $1.2 billion for the full year 2010 over 2009 due, in part, to a well-received AA/GIC launch into the independent channel as well as a shift in investors' preferences.
- Group Benefits delivered strong sales results, with sales up 33% to $433 million for 2010. Group Benefits was also successful in installing a number of important administrative changes to the federal Public Service Health Care Plan, the largest group plan in Canada, enhancing the service we provide to over 1.2 million members and dependents. Business in-force increased by 6% from December 31, 2009, to $7.3 billion as at December 31, 2010.
- In Group Retirement Services ("GRS"), we continued to build on our leadership position in the Defined Contribution ("DC") industry capturing 55% of the total DC market activity in the first nine months of 2010, as recently reported by LIMRA. Pension rollover sales increased by 22% to a record $1 billion, and a four-quarter average retention rate of 50%. GRS continued to deliver strong results, with overall sales increasing to $4.3 billion, an increase of 3% over 2009.
- In October 2010, Sun Life Global Investments (Canada) Inc. ("SLGI") launched a new line-up of mutual funds, featuring funds managed by MFS, Sun Capital Advisers and McLean Budden.
- SLF Canada continued to focus on innovation and product re-design to meet the needs of customers and strengthen our risk management profile. In Individual Insurance & Investments we launched a new segregated fund product, SunWise Essential Series™. GRS announced the industry's first wireless mobile enrollment using the new BlackBerry ® PlayBook™, and Group Benefits continues to lead in innovation with the implementation of scanning technology for group health and dental claims processing, resulting in increased speed, accuracy and fraud prevention capabilities.

Financial and Business Results

Summary Statement of Operations

($ millions)	**2010**	2009	2008
Premiums	**6,890**	6,952	6,273
Net investment income	**3,758**	3,757	966
Fee income	**801**	698	688
Total revenue	**11,449**	11,407	7,927
Client disbursements and change in actuarial liabilities	**8,504**	8,777	4,986
Commissions and other expenses	**2,004**	1,803	1,846
Income taxes	**94**	(54)	435
Non-controlling interests in net income of subsidiaries and par policyholders' income	**19**	15	15
Common shareholders' net income[1]	**828**	866	645

(1) Earnings in 2008 included income of $117 million from Sun Life's 37% ownership interest in CI Financial, which the Company sold in the fourth quarter of 2008.

Full year 2010 earnings were $828 million compared to $866 million for the same period last year. Net income decreased primarily from less favourable equity market impacts, less favourable mortality and morbidity and policyholder experience and lower impacts of asset-liability re-balancing. This decrease was partially offset by more favourable interest rate impacts, credit experience and favourable changes to actuarial estimates and assumptions.

Revenue for 2010 was $11.4 billion, an increase of $42 million from 2009, primarily due to an increase in fee income of $103 million from higher asset levels, which was partially offset by lower premiums.

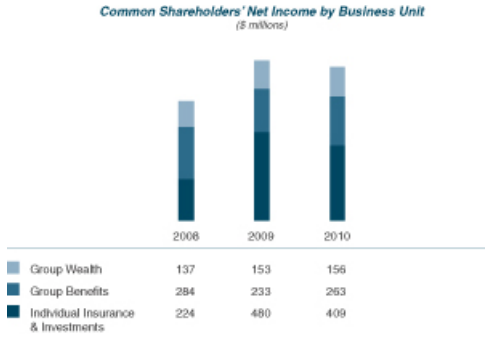
SLF Canada had assets under management of $133.8 billion as at December 31, 2010; a record level and an increase of 7% from 2009 levels. Positive cash flows and favourable equity market performance were the primary contributors to the growth in AUM.

Results by Business Unit

Individual Insurance & Investments

Individual Insurance & Investments strategy is to service lifetime financial security needs through holistic advice and solutions supported by a leading suite of profitable products and a focus on being easy to do business with for both our clients and our advisors.

Individual Insurance & Investments' principal insurance products include universal life, term life, permanent life, participating life, critical illness, long-term care and personal health insurance. We offer savings and retirement products, which include accumulation annuities, payout annuities, mutual funds and segregated funds. Our products are marketed through a distinctive, multi-channel distribution model consisting of our exclusive Sun Life Financial Advisor Sales Force and wholesale distribution channels. Certain products including accidental death insurance and personal health insurance are marketed directly to the Individual client base in partnership with our advice channels.



Individual Insurance & Investments' earnings decreased to $409 million in 2010 from $480 million in 2009 primarily as a result of a lower level of equity market impacts and reduced gains from asset liability re-balancing. This was partially offset by favourable interest rate impacts, improved credit experience, the favourable impact of updates to actuarial estimates and assumptions, and certain tax related benefits.

Sales of individual life and health insurance products increased by 20% to $201 million for the year ended December 31, 2010. The Sun Life Financial Advisor Sales Force grew to over 3,600 advisors, managers, and specialists.

Sales of individual Wealth products increased by $87 million, or 2%, to $4.1 billion in 2010. Mutual fund sales increased by $301 million, or 35% over 2009, and sales of guaranteed interest products (payout annuities, accumulation annuities, GIC's) increased by $155 million or 15% over 2009. These increases were offset by lower segregated fund sales, which decreased by $369 million, or 18%, over 2009.

Group Benefits

Our Group Benefits business unit is a leading provider of group life and health insurance products in Canada, with a market share of 22% [(1)]. We provide life, dental, drug, extended health care, disability and critical illness benefit programs to employers of all sizes. In addition, voluntary benefits solutions are offered directly to individual plan members, including post-employment life and health plans to plan members exiting their plan. We are an innovation leader, competing on the strength of an industry-leading technology platform, a unique Total Benefits offering and integrated health, wellness and disability management capabilities. Our products are marketed and distributed across Canada by experienced sales representatives in collaboration with independent advisors and benefits consultants.

Group Benefits 2010 net income of $263 million increased by $30 million over 2009 primarily due to favourable asset liability re-balancing, growth in in-force business and improved credit experience, partially offset by less favourable morbidity experience. Group Benefits retained the number two market share position for overall business in-force[(1)] in Canada and continues to focus on customer service and productivity.

New annualized premiums and premium equivalents, increased by $107 million to $433 million in 2010. Client retention remained strong, with industry-leading cancellation rates at 3% of premium and premium equivalents.

Group Wealth

Our Group Wealth business unit consists of the GRS operation as well as our 67% economic interest in McLean Budden Limited, a premier institutional provider of investment management services in Canada. With a 35% market share[(2)], GRS is the leading provider of DC plans in Canada, serving over one million plan participants at the end of 2010. We also offer other group retirement services and products, including investment-only segregated funds and fixed rate annuities, stock plans, group life annuities, pensioner payroll services, guaranteed minimum withdrawal benefits and solutions for de-risking defined benefit pension plans.

Our GRS solutions meet the complex plan and service requirements of medium to large organizations, while providing cost-effective solutions to the small employer market. We continue to launch innovative solutions to meet the emerging needs of the pension market to further enhance our leadership position. We distribute our products and services through a multi-channel distribution network of pension consultants, advisors and teams dedicated to the rollover sector and defined benefit solutions.

Group Wealth net income increased to $156 million in 2010 from $153 million in 2009 primarily as a result of favourable credit experience and improved mortality experience, partially offset by the lower interest rate environment. GRS sales increased 3% in 2010, to $4.3 billion primarily from increased sales in the small to mid-case market.

GRS sales also continued to benefit from the offering of rollover products to members leaving defined contribution plans. In 2010, sales exceeded $1 billion, leading to a four-quarter average retention rate of 50%.

(1) 2009 Fraser Study, based on in-force premiums and premium equivalents for the year ended December 31, 2009
(2) As measured by Benefits Canada magazine's 2009 Defined Contribution Plan Survey released in December 2009

GRS assets under administration of $48 billion in 2010 grew by 10% over 2009, with strong sales results, ongoing member contributions and continued improvement in equity markets.

2011 Outlook and Priorities

The three largest Canadian insurers, including SLF Canada, account for over 60% of the life, health and annuity segments in Canada as measured by premiums. Our key differentiators in today's market include a strong capital position and brand profile, strong distribution capabilities and economies of scale to support investment in technology, product innovation and client service.

Improvements in equity markets with continued volatility as well as narrower credit spreads and continuing low interest rates characterized the business environment in 2010. Ongoing financial market volatility, historically low interest rates and continued high unemployment rates will create a challenging operating environment in 2011.

In 2011, we will continue to focus on improving profitability through product mix, strengthening distribution capabilities and providing value added products and services to our diverse client base.

In Individual Insurance & Investments, we will increase profitable sales through the Sun Life Financial Advisor Sales Force and Wholesale distribution partners with a focus on lifetime relationships, holistic advice and product development. We will also focus on leveraging SLGI, our new mutual fund company, in wealth accumulation and retirement strategies.

Our group businesses will grow profitability by increasing sales, particularly in the small- and medium-sized case markets and by creating additional revenue opportunities by developing and offering innovative product and service solutions to larger accounts.

Additional sales growth will be achieved by leveraging product and service capabilities and the relationships with individual clients and group plan members through voluntary benefit offerings and building on the success of the rollover business in both GRS and Group Benefits.

We will continue to emphasize risk management including re-pricing of products such as Universal Life as a result of the continued historically low interest rate environment and by actively managing our segregated funds risk profile and our group disability income business. We will continue to focus on improvements in productivity through disciplined expense management while maintaining a high level of client satisfaction.

SLF U.S.

Business Profile

SLF U.S. provides wealth accumulation, retirement income and protection solutions to help our customers achieve financial security through its three business units – Annuities, Individual Insurance and Employee Benefits Group ("EBG"). For individuals at or nearing retirement, our Annuity products provide customers with the security of not out living their savings. Our Individual Insurance business offers life insurance solutions for wealth protection, wealth transfer and executive benefits. EBG offers group life, disability, medical stop-loss and dental insurance solutions for employers and their employees.

Strategy

Our strategy is to deliver sustainable and profitable growth by focusing on markets and customers that value financial strength and prudent risk management. These markets include baby boomers, small-to-mid size businesses and their employees and affluent individuals. We continue to grow in our selected markets with customer-centric product solutions, strong distribution relationships, brand development and focused execution.

Our comprehensive risk management program is central to our strategy. We leverage this core discipline to design solutions that balance customer and shareholder value while driving sustainable growth.

Building industry-leading distribution capabilities is also central to our strategy. We partner with independent financial advisors and brokers to deliver our solutions to their clients. We support these financial intermediaries through a team of over 300 sales professionals located across the United States.

We have aligned our business model to leverage shared services for Information Technology, Operations, Finance, Risk Management, Marketing, Human Resources and Legal to drive operational efficiency and to develop centers of excellence.

2010 Business Highlights

- In EBG, we reorganized our distribution model to increase specialization and better align with key segments such as the small-to-mid sized and voluntary markets. EBG reported record sales of US$612 million in 2010
- We continued to launch innovative variable annuity products that help customers reach their retirement goals while improving our risk profile
- In Individual Insurance, our distribution model was expanded to increase focus on direct-to-producer capabilities to drive growth. We doubled the number of external life wholesalers and shifted resources to relationship management to increase shelf space directly with key distribution partners
- In Individual Insurance, we exited the no-lapse guarantee ("NLG") universal life business to focus on product lines which have greater potential for sustainable and profitable growth
- SLF U.S. announced the sponsorship of Sun Life Financial Stadium, home of the Miami Dolphins, helping to increase aided consumer awareness to 18% from 6% in just 5 months. We also implemented the Rising Star Awards program in 7 cities, a philanthropic initiative in the field of education
- We continued to focus on expense management and improve operational efficiency, while maintaining a high level of customer satisfaction. Overall expenses were relatively flat from 2009 levels as a result of productivity improvements

Financial and Business Results

Summary Statement of Operations

(US$ millions)	2010	2009	2008
Premiums	4,759	5,989	5,395
Net investment income	2,431	3,773	(2,279)
Fee income	650	508	522
Total revenue	7,840	10,270	3,638
Client disbursements and change in actuarial liabilities	5,721	9,397	3,404
Commissions and other expenses	1,713	1,745	1,678
Income taxes	108	(435)	(561)
Non-controlling interests in net income of subsidiaries and par policyholders' income	1	3	–
Common shareholders' net income	297	(440)	(883)
Selected financial information in Canadian dollars			
Total revenue	8,104	11,714	3,817
Common shareholders' net income (loss)	301	(465)	(1,016)

For the year ended December 31, 2010, SLF U.S. reported net income of $301 million, compared to a loss of $465 million in 2009.

On a U.S. dollar basis, SLF U.S. recorded income of US$297 million in 2010 compared to a loss of US$440 million in 2009. The earnings improvement in 2010 was primarily driven by more favourable credit experience and the reduced adverse impact of updates to actuarial estimates and assumptions compared to 2009. These improvements were partially offset by unfavourable policyholder experience in Individual Insurance and Employee Benefits Group and less favourable impacts from equity market and interest rate movements compared to 2009.

Total revenue for the year ended December 31, 2010 was US$7.8 billion, a decrease of US$2.4 billion from 2009 primarily due to decreases in net investment income and premiums. The reduction in net investment income was largely due to lower fair value gains on HFT assets and non-hedging derivatives of US$0.7 billion in 2010, compared to gains of US$2.1 billion in 2009. The decrease in premiums was predominantly due to lower fixed annuity sales, as a result of our decision to de-emphasize this product line.

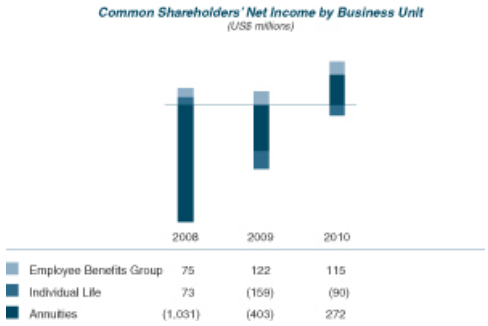
Total assets under management were US$70.8 billion as at December 31, 2010, up 6% from 2009 reflecting equity market improvements and positive net sales.

Results by Business Unit

Annuities

The SLF U.S. Annuities business unit provides variable and fixed annuity products and investment management services. We are focused on balancing consumer and shareholder value to deliver sustainable growth in this business. We expect to achieve this growth by increasing wholesaler productivity with a de-risked, simplified product portfolio. We distribute our products through 79 wholesalers who, in addition to our complement of 52 internal wholesalers, interact with over 8,500 independent advisors and brokers in the wirehouse, regional broker dealers and banking distribution channels.

Annuities recorded net income of US$272 million for the year ended December 31, 2010 compared to a loss of US$403 million for the full year 2009. Earnings in 2010 were driven by favourable credit markets relative to the prior year and the unfavourable implementation of equity and interest rate-related assumption updates in the third quarter of 2009.



Annuity sales were US$4.6 billion during 2010 compared to US$5.5 billion in 2009. Variable annuity sales increased 8% to $4.4 billion reflecting improved wholesaler productivity. This was offset by a decrease in fixed annuity sales, as a result of our decision to de-emphasize this product. In Q4 2010, SLF U.S. introduced three new variable annuity riders, designed to help clients maximize their retirement income and protect against rising costs with a guaranteed annual increase to lifetime income. These new riders allow us to adjust the charges for new and in-force business, improving the company's risk profile.

Individual Insurance

SLF U.S.'s Individual Insurance business unit offers protection products to affluent individuals and small to mid-sized business owners, including single and joint universal life and variable universal life. In addition to these core products, we offer corporate-owned life insurance. Late in 2010, we exited the NLG universal life business to focus on specialized, solutions-based offerings, which have greater potential for sustainable and profitable growth. We have adjusted our distribution model to better align with these products and our key markets, including small business owners and executive benefits. To that end, we are expanding our distribution capabilities to increase direct access to independent financial advisors and leverage our EBG capabilities and relationships.

Individual Insurance reported a loss of US$90 million in 2010 compared to a loss of US$159 million in 2009. Losses in 2010 reflected reserve increases related to the decreasing interest rate environment relative to 2009 and policyholder behavior assumption updates. Losses in 2009 were higher due to the implementation of equity and interest rate-related assumption updates and updates to policyholder behaviour assumptions.

Overall sales in 2010 and 2009 were US$212 million and US$238 million, respectively. Sales of Individual Insurance domestic core products of US$128 million were consistent with prior year. This includes a 42% decrease in NLG universal life sales, reflecting our decision to exit this product line. NLG sales were replaced by growth in our other core universal life products, including a 39% increase in sales of our small business solution.

Employee Benefits Group

SLF U.S.'s EBG business unit leverages its strong underwriting expertise and extensive distribution capabilities to provide group life, long-term and short-term disability, medical stop-loss, and dental insurance to over 10 million group plan members. We currently provide customer-focused products and services to meet the group insurance needs of small to medium-sized employers and their employees. Our group insurance products are sold through independent brokers and benefit consultants. We support these brokers and consultants through 34 regional group offices across the United States and more than 170 Sun Life sales representatives. These representatives maintain close relationships with independent brokers and consultants who work directly with employers. In the first quarter of 2010, we realigned the EBG sales force to create a more specialized distribution model and increase our focus on key markets.

EBG earnings were US$115 million in 2010 compared to earnings of US$122 million in 2009. The decrease was primarily due to less favourable claims experience.

Despite a challenging competitive environment, sales in 2010 were a record US$612 million, up 2% compared to 2009. Business in-force of US$2.2 billion as at December 31, 2010 increased 5% over the prior year despite difficult economic conditions including low wage rates and high unemployment.

2011 Outlook and Priorities

SLF U.S. competes in the sophisticated and highly competitive U.S. life insurance industry, in which the top companies have gained unprecedented market share. Although there are encouraging signs that the U.S. economy has started to recover, high unemployment, low interest rates, stressed commercial real estate markets and volatile financial markets will likely persist through 2011. In this environment, the advantages of operational scale and growth have to be balanced with the risk profile of the business.

Several key trends provide opportunities for us to grow our core businesses. First, 78 million baby boomers are in or nearing retirement, increasing the demand for retirement income security. Second, as the responsibility for retirement income shifts to the individual and market volatility and uncertainty increases, the Annuities business can offer a unique value proposition through guaranteed lifetime income. Third, the longer-term needs of baby boomers to transfer wealth to their children in a tax efficient manner will provide growth opportunities for Individual Insurance. Fourth, longer life expectancy combined with rising medical expenses is increasing demand for innovative solutions. Finally, as businesses try to stem rising health care expenses by shifting the cost of benefits to employees, EBG has an opportunity to increase its voluntary benefits business.

To capitalize on the current business environment and trends, we will drive sustainable and profitable organic growth by developing new solutions that satisfy consumer needs while effectively managing risk. SLF U.S. will maintain its focus on strengthening its distribution capabilities and investing in marketing and brand development to support growth in each business. Effective risk management and continuous improvements in operational efficiency remain top priorities.

MFS Investment Management

Business Profile

MFS is a global asset management company which offers products and services that address the varying needs of investors over time. Individual investors have access to MFS advisory services through a broad selection of financial products including mutual funds, variable annuities, separately managed accounts, college and retirement savings plans, and offshore products. Financial intermediaries that provide sales support, product administration and client services distribute these products. MFS services institutional clients by providing asset management services 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.

Strategy

MFS's strategy is to grow its business by continually exceeding clients' expectations with superior investment performance. As distribution of retail funds continues to move toward platform-driven sales, long-term investment performance has become even more important. We will continue to challenge the structure of our investment process and add research talent to ensure that high investment performance is maintained across a universe of securities that is becoming more geographically dispersed.

The expansion of institutional products and sales is also an important element of our strategy. We have launched a number of institutionally-focused investment products that are designed to better meet the market separation of investment performance linked to an index and investment performance based on active management of investment products. We have and will continue to add investment talent to support the expanded product set and wholesalers to expand distribution capabilities geographically.

2010 Business Highlights

- MFS's assets under management increased by 19% to end the year at a record high of US$222.0 billion.
- Gross sales also reached a record high of US$53 billion.
- Effective July 1, 2010, Robert J. Manning became chairman of MFS Investment Management. Mr. Manning also continues in his role as chief executive officer, and succeeds Robert C. Pozen, who became chairman emeritus.
- U.S. retail investment performance continued to be strong during 2010, with 85% of MFS's fund assets ranking in the top half of their respective three-year Lipper categories at December 31, 2010.

Financial and Business Results

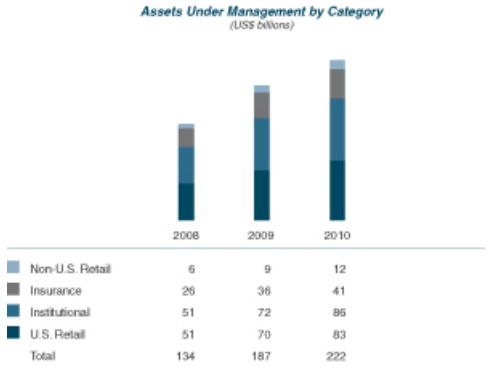
Summary Statement of Operations

(US$ millions)	2010	2009	2008
Total revenue	1,407	1,106	1,308
Commissions and other expenses	1,061	875	985
Income taxes	133	89	128
Non-controlling interests in net income of subsidiaries	11	6	9
Common shareholders' net income	202	136	186
Sales (US$ billions)			
Gross	53.0	48.5	36.0
Net	14.2	18.9	(5.8)
Pre-tax operating profit margin ratio	30%	26%	30%
Average net assets (US$ billions)	197	153	172
Selected financial information in Canadian dollars			
Total revenue	1,449	1,251	1,381
Common shareholders' net income	208	152	194

MFS's common shareholders' net income of $208 million for 2010 increased $56 million, or 37%, from $152 million in 2009.

On a U.S. dollar basis, MFS's earnings increased by US$66 million, or 49%, to US$202 million in 2010 primarily due to higher average net assets ("ANA"), which increased to US$197 billion during the twelve months ended December 31, 2010, from US$153 billion in 2009. Total revenue of US$1,407 million in 2010 increased US$301 million from 2009 levels on higher ANA. The advisory revenue portion of MFS's total revenue increased by 32% to US$992 million, consistent with the percentage increase in ANA during 2010. Other sales and servicing revenues increased, primarily due to the impact of both a higher distribution effective fee rate and higher ANA.

Under IFRS, share-based compensation awards at MFS will be accounted for as cash settled liabilities. Additional information concerning share-based compensation can be found in this MD&A under the heading, International Financial Reporting Standards.



AUM ended 2010 at US$222 billion, an increase of 19% for the year mainly due to favourable market performance of US$20.3 billion and net inflows of US$14.2 billion. Net inflows were strong for both retail mutual funds and managed funds, which were US$7.6 and US$6.6, respectively, for 2010.

2011 Outlook and Priorities

Sovereign risk and currency-related issues around the world brought new investing challenges in 2010. While the U.S. Federal Reserve's quantitative easing measures helped stimulate domestic markets, broader uncertainty kept investors largely in a defensive mindset. While we expect this dynamic to moderate in 2011, it will likely be slow and gradual until we see a sustained period of muted volatility.

Within the institutional market, investors continue to re-evaluate their asset allocation strategies – with defined benefit plans focused on de-risking and defined contribution plans focused on target-risk type products. Global equity, international equity, and alternative product strategies continue to lead search activity. Within retail, the ongoing migration to intermediary platforms continues to amplify the importance of investment performance and service quality. The increase in platform sales reduces traditional distribution fees, further pressuring the smaller participants in the retail market.

In 2011, we will deepen our existing alpha-generating resource capabilities and expand our global research platform by adding equity analysts in key regions. Our institutional business will seek to expand relationships with global and top tier consultants, further penetrate the defined contribution markets in the U.S. and United Kingdom, and continue to focus on growing our sovereign wealth business across the world. Our retail distribution efforts will revolve around continuing to emphasize our quality, risk management, and product breadth stories with advisors, including our multi-asset class capabilities. We will also be focused on strengthening relationships within the increasingly important professional buyer segment. Finally, 2011 will be the "Year of the Client" for MFS, as we plan to develop and begin to execute on a major service improvement initiative that will touch all clients and channels.

SLF Asia

Business Profile

SLF Asia operates through subsidiaries in the Philippines, Hong Kong and Indonesia and through joint ventures with local partners in Indonesia, India and China. These five markets account for approximately 70% of the total Asian population. Our Regional Office in Hong Kong facilitates the sharing of best practices and resources throughout the SLF Asia operations.

Individual life and health insurance as well as group life insurance products are offered in all five markets. Pension and retirement products are offered in Hong Kong and India, and mutual funds are sold in the Philippines and India. These protection and wealth products are distributed to middle- and upper-income individuals, groups and affinity clients through multi-distribution channels, with agency remaining the largest distribution channel.

Strategy

Our strategy is to gain scale in each of the markets where we operate and develop into a significant long-term revenue and earnings growth operation. As such, we are increasing the speed to market for new and innovative products, developing alternative distribution channels such as bancassurance and telemarketing as well as leveraging the Company's existing asset management capability in Asia and globally. The local initiatives will complement the leveraging of Sun Life Financial's worldwide resources to bring industry-leading products, services and best practices to Asia.

2010 Business Highlights

- On July 20, 2010, Sun Life Everbright was restructured as a domestic insurance company. Under the restructuring of the joint venture with the China Everbright Group, additional strategic investors were introduced, which reduced our ownership in Sun Life Everbright from 50% to 24.99%. The repositioning provides an opportunity for Sun Life Everbright to capture a larger share of China's growing financial services sector.
- In August 2010, CIMB Sun Life, Sun Life's joint venture in Indonesia with P.T. Bank CIMB Niaga, was named "Best New Company of the Year" by the International Business Awards. This premier international business award honours companies and their employees for outstanding performance.
- Sun Life Hong Kong increased its mandatory provident fund and pension administration assets under administration by 53% over 2009.
- In the Philippines, we are ranked number one in new business with a 16% market share, based on adjusted first year premium.
- In India, Birla Sun Life Asset Management Company Limited has been recognized as "The Asset Management Company of the Year" in India by Hong Kong's *The Asset Magazine*. The award acknowledges the company's comprehensive and innovative offerings, its significant efforts to reach new investors and above-benchmark performance.

Financial and Business Results

Summary Statement of Operations

($ millions)	2010	2009	2008
Premiums	861	848	726
Net investment income	710	846	(318)
Fee income	138	119	90
Total revenue	1,709	1,813	498
Client disbursements and change in actuarial liabilities	1,189	1,314	64
Commissions and other expenses	394	402	379
Income taxes	34	21	22
Common shareholders' net income	92	76	33

SLF Asia's full year 2010 earnings were $92 million compared to $76 million in 2009. The increase in earnings was mainly due to improved results in India as a decline in sales resulted in lower levels of new business strain, and a net gain of $19 million from the restructuring of Sun Life Everbright in China, partially offset by lower earnings in Hong Kong from higher levels of new business strain in 2010 and favourable mortality and credit experience in 2009.

SLF Asia's total revenue decreased by 6% to $1,709 million in 2010 compared to $1,813 million in 2009, reflecting the unfavourable impact from fair value changes on HFT assets and non-hedging derivatives in 2010.

Individual life insurance sales for 2010, measured in Canadian dollars, were down by 18% over 2009, mainly due to lower sales in India, which have been impacted by major industry-wide regulatory changes to unit-linked products. Excluding India, individual life sales were up 43% driven by sales growth in all other markets. In 2010, we continued to build alternate distribution channels, leverage a more balanced product portfolio, and increase efficiency and productivity while maintaining customer focus.



(1) Includes 100% sales for joint ventures.

Results by Business Unit

Hong Kong

Our Hong Kong operations have been building a strong presence in the region by offering a full range of products to address protection and savings needs. Individual life and health insurance, mandatory provident funds (the government-legislated pension plan) and pension administration are offered to individuals and businesses through a multi-channel distribution system that includes a career agency force, bancassurance and independent financial advisors.

We continue to expand our alternative distribution channels in Hong Kong, which contributed 35% of total individual life sales in 2010. In particular, sales from bancassurance and telemarketing channels were up 10% and 94%, respectively, in 2010 compared to 2009. Total individual life sales were up 15% in 2010 compared to 2009, on a local currency basis.

The mandatory provident fund and pension administration gross sales increased significantly by 167% over 2009 and total assets under administration grew by 53% over 2009, resulting from further expansion of the pension administration business.

Philippines

Our Philippines operations, established in 1895, distribute a diverse range of protection and savings products largely through their proprietary career agency sales force. We offer individual and group life and health insurance products, as well as mutual funds, to individuals and institutions.

With 31 branches, 41 sales offices and five financial stores nationwide, our operations in the Philippines are considered one of the strongest and most stable insurance companies in the market.

Individual insurance sales were up by 35% compared to 2009, on a local currency basis, as demand for investment-linked products increased following the return of investor confidence. Mutual fund gross sales increased by 158% over 2009 and assets under management grew by 29% over 2009.

Indonesia

In Indonesia, we offer individual life and health insurance as well as creditor life insurance through our wholly-owned subsidiary, PT Sun Life Financial Indonesia, and our joint venture with PT Bank CIMB Niaga. Both operations follow a multi-channel distribution strategy. CIMB Sun Life serves CIMB Niaga's customers on an exclusive basis for most insurance products.

Individual life Insurance sales in Indonesia were up 41% in 2010 compared to 2009, on a local currency basis due to an increase of agency sales force and continued growth of CIMB Sun Life.

India

Birla Sun Life Insurance Company Limited (Birla Sun Life Insurance), our insurance joint venture with the Aditya Birla Group in India, provides a full range of individual and group protection, savings and retirement products through a multi-channel distribution network, including a career agency sales force, bancassurance distribution, brokers and worksite marketing.

In addition, Birla Sun Life Asset Management Company Limited, the Company's asset management joint venture in India, offers a full range of mutual fund products to both individual and institutional investors. Independent financial advisors and banks distribute Birla Sun Life's mutual funds to the retail sector, while the direct distribution capabilities serve corporate clients.

Birla Sun Life Insurance's individual insurance sales were impacted by major industry-wide regulatory changes to unit-linked products and down 31% in 2010 compared to 2009, on a local currency basis. The gross inflows of Birla Sun Life Asset Management Company Limited were up by 16% over last year.

China

Sun Life Everbright operates a multi-distribution model that combines a direct career agency, financial consultants, telemarketing and several bancassurance alliances to sell individual life and health insurance and savings products.

In July 2010, the China Insurance Regulatory Commission approved the restructuring of Sun Life Everbright as a domestic insurance company. We have a 24.99% interest in the restructured company. The repositioning allows Sun Life Everbright to capture a larger share of China's growing financial services sector.

In 2010, sales of individual insurance products by Sun Life Everbright were up 135% compared to 2009 on a local currency basis, driven by strong sales of participating products in the bancassurance channel. In the fourth quarter of 2010, Sun Life Everbright received approval to open three new branches in China, bringing the total number of cities in which Sun Life Everbright operates to 36.

2011 Outlook and Priorities

The life insurance markets in which we operate in Asia range from the developing and increasingly competitive markets, such as India and China, to the more mature markets of the Philippines and Hong Kong. Overall, the life industry at both the regional and country level continued to evolve rapidly, with a number of players exiting selected markets, but many more increasing their investment and commitment to the region, including Sun Life. While agency continued to be the primary distribution channel in Asia, the bancassurance channel has been increasingly gaining market share with strong growth potential.

After the global financial crisis, regulatory oversight on consumer protection has increased primarily related to investment-linked products and related sales practices, as well as capital adequacy. While the market significantly recovered during 2010, we continue to expect a challenging operating environment in 2011, but with opportunities for prepared and quality players to significantly outperform their peers.

In 2011, we will continue to launch innovative and customer focused products reflecting each market's specific and evolving needs over time. We will also enhance and diversify distribution management, implementing best practices in such areas as agency recruitment and training, and further expanding alternative channels such as bancassurance and telemarketing. Continued enhancement of risk management and operational efficiency will also remain a priority to further streamline the operations and enhance the platform that supports future growth across the region.

Corporate

Our Corporate segment includes the results of SLF U.K. and Corporate Support operations that include the Company's reinsurance businesses as well as investment income, expenses, capital and other items not allocated to Sun Life Financial's other business segments.

Our reinsurance businesses consist of life reinsurance and run-off reinsurance. On December 31, 2010, we sold our life reinsurance business. This business consisted primarily of reinsurance of individual life, with additional coverage including critical illness, group, corporate-owned life insurance, and longevity. Our run-off reinsurance business is a closed block of reinsurance assumed from other insurers. Coverage includes individual disability income, long-term care, group long-term disability and personal accident & medical on the health side, as well as guaranteed minimum income and death benefit coverage.

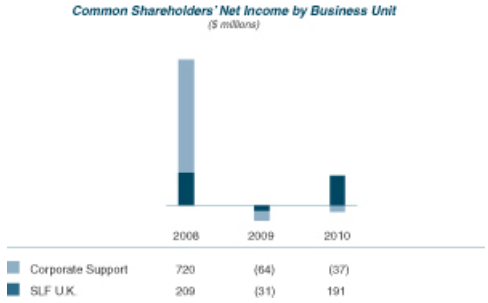
Financial and Business Results

Summary Statement of Operations

($ millions)	2010	2009	2008
Premiums	841	849	851
Net investment income	995	504	1,056
Fee income	93	34	33
Total revenue[1]	1,929	1,387	1,940
Client disbursements and change in actuarial liabilities	1,288	1,231	1,138
Commissions and other expenses	398	280	87
Income taxes	(5)	(108)	(285)
Non-controlling interests in net income of subsidiaries	1	–	1
Dividends paid to preferred shareholders	93	79	70
Common shareholders' net income	154	(95)	929
Special items[2]	–	27	(825)
Operating earnings	154	(68)	104

(1) Including consolidation adjustments related to activities between segments.
(2) See Non-GAAP Financial Measures.

Net income for the twelve months ended December 31, 2010 in the Corporate segment was $154 million compared to a loss of $95 million for the same period last year. In Corporate Support, losses for 2010 were $37 million, compared to $64 million in 2009. Losses were lower in 2010 primarily due to improved results in the run-off reinsurance business and the favourable impact of tax benefits in Corporate Support, partially offset by investment gains which favourably impacted results in 2009. Results for 2009 also included restructuring charges to improve operational efficiency.



SLF U.K.

SLF U.K. has approximately 1 million in-force life and pension policies, which constitute a run-off block of business. While our U.K. operations supported the capability to sell new business, we refocused our approach in 2010 to focus solely on providing products and services to existing customers. Most administrative functions have been outsourced to external service providers, which are managed by an in-house management team.

For the year ended December 31, 2010, SLF U.K. reported net income of $191 million compared with a loss of $31 million in 2009. Earnings in SLF U.K. were higher in 2010 largely as a result of the favourable impact of the Lincoln U.K. acquisition and a tax benefit associated with a favourable judgment received by the Company.

Investments

The Company strives to ensure that all general fund investments are properly aligned with business objectives, meeting policyholder obligations, and that adequate liquidity is maintained at all times. The Risk Review Committee of the Board of Directors approves policies that contain prudent standards and procedures for the investment of our general fund assets. These policies include requirements, restrictions and limitations for interest rate, credit, equity market, real estate market, liquidity, concentration, currency and derivative risks. Compliance with these policies is monitored on a regular basis and reported annually to the Risk Review Committee. The Investment Oversight Committee of the Board of Directors oversees investment policies, practices, procedures and controls related to management of the general fund investments portfolio, the approval and monitoring of the annual Investment Plan and monitoring of the investment performance of enterprise pension and savings plans.

The shaded text and tables in the following section of this MD&A represent our disclosure on Credit Risk – Asset Quality in accordance with CICA Handbook Section 3862, *Financial Instruments – Disclosures*. Therefore, the shaded text and tables represent an integral part of our audited 2010 Annual Consolidated Financial Statements for the years ended December 31, 2010 and December 31, 2009. The shading in this section does not imply that these disclosures are of any greater importance than non-shaded tables and text, and the Investments disclosure should be read in its entirety.

Investment Profile

The Company had total general fund invested assets of $110 billion as at December 31, 2010. The majority of our general fund is invested in medium- to long-term fixed income instruments, such as bonds and mortgages. Our portfolio composition is conservative, with 86% of the general fund in cash and fixed income investments. Stocks and real estate comprised 5% and 4% of the portfolio, respectively. The remaining 5% of the portfolio is comprised of policy loans, derivative assets and other invested assets.

Additional detail on our investments is provided in Notes 5 and 6 to our 2010 Consolidated Financial Statements.

Investments

	2010			2009		
($ millions)	**Carrying Value**	**Fair Value**	**% of total carrying value**	Carrying Value	Fair Value	% of total carrying value
HFT bonds	**54,753**	**54,753**	**50**	51,634	51,634	48
AFS bonds	**10,752**	**10,752**	**10**	9,673	9,673	9
Mortgages and corporate loans	**19,511**	**20,430**	**18**	19,449	19,941	18
HFT stocks	**4,424**	**4,424**	**4**	4,331	4,331	4
AFS stocks	**808**	**809**	**1**	635	649	1
Real estate	**4,919**	**5,125**	**4**	4,877	5,124	5
Policy loans and other invested assets	**3,525**	**3,525**	**3**	3,503	3,503	3
Cash, cash equivalents and short-term securities	**8,487**	**8,487**	**8**	11,868	11,868	11
Derivative assets	**1,629**	**1,629**	**2**	1,382	1,382	1
Other invested assets - HFT	**419**	**419**	**-**	425	425	-
other invested assets - AFS	**454**	**492**	**-**	452	484	-
Total invested assets	**109,681**	**110,845**	**100**	108,229	109,014	100

Bonds

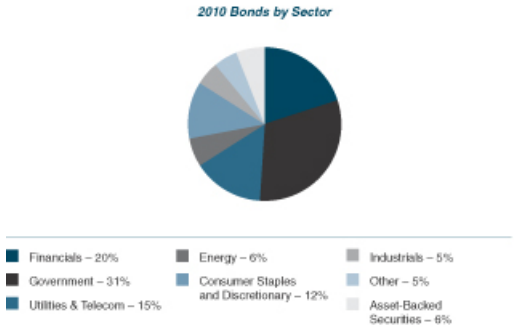
Our bond portfolio is actively managed through a regular program of purchases and sales aimed at optimizing yield, quality and liquidity, while ensuring that the asset portfolio remains diversified and well matched to actuarial liabilities by duration. As at December 31, 2010, we held $65.5 billion of bonds, which constituted 60% of our overall investment portfolio. Bonds with an investment grade of “A” or higher represented 68% of the total bond portfolio as at December 31, 2010, compared to 67% as at December 31, 2009. Bonds rated “BBB” or higher represented 96% of the total bond portfolio as at December 31, 2010, unchanged from December 31, 2009.

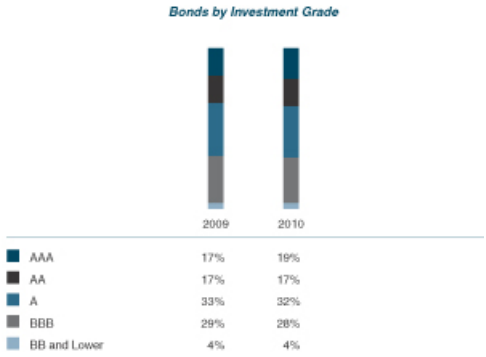
Included in the $65.5 billion of bonds were $13.4 billion of non-public bonds, which constituted 20% of our overall bond portfolio, compared with $13.2 billion, or 22%, as at December 31, 2009. Corporate bonds that are not issued or guaranteed by sovereign, regional and municipal governments represented 70% of the total bond portfolio as at December 31, 2010, compared to 73% as at December 31, 2009. Total government issued or guaranteed bonds as at December 31, 2010 were $19.8 billion, compared to $16.8 billion as at December 31, 2009. We have an immaterial amount of direct exposure to eurozone sovereign credits.

The carrying value of bonds by issuer and industry sector as at December 31 is shown in the following table:

	2010			2009		
	HFT Bonds	AFS Bonds	Total	HFT Bonds	AFS Bonds	Total
Bonds issued or guaranteed by:						
Canadian federal government	2,271	1,314	3,585	2,707	397	3,104
Canadian provincial and municipal governments	7,760	176	7,936	6,787	80	6,867
U.S. Treasury and other U.S. agencies	1,901	1,200	3,101	1,441	470	1,911
Other foreign governments	4,732	449	5,181	4,372	519	4,891
Total government issued or guaranteed bonds	16,664	3,139	19,803	15,307	1,466	16,773
Corporate bonds by industry sector:						
Financials	10,350	2,899	13,249	11,050	3,403	14,453
Utilities and energy	9,605	1,011	10,616	8,816	1,050	9,866
Telecom	2,076	606	2,682	2,453	797	3,250
Consumer staples and discretionary	6,569	1,367	7,936	5,487	1,337	6,824
Industrials	2,948	558	3,506	2,669	523	3,192
Other	2,911	622	3,533	2,288	495	2,783
Total corporate	34,459	7,063	41,522	32,763	7,605	40,368
Asset-backed securities	3,630	550	4,180	3,564	602	4,166
Total bonds	54,753	10,752	65,505	51,634	9,673	61,307

Our bond portfolio as at December 31, 2010, included $13.3 billion in the financial sector, representing approximately 20% of the bond portfolio, or 12% of our total invested assets. This compares to $14.5 billion, or 24% of the bond portfolio as at December 31, 2009. The $1.2 billion decrease in the value of financial sector bond holdings was primarily due to planned reductions of our larger exposures.





The carrying value of bonds by issuer country as at December 31 is shown in the following table.

	2010			2009		
($ millions)	HFT Bonds	AFS Bonds	Total	HFT Bonds	AFS Bonds	Total
Bonds						
Canada	21,293	1,964	23,257	20,167	980	21,147
United States	20,817	6,940	27,757	19,037	6,662	25,699
United Kingdom	5,080	392	5,472	5,229	614	5,843
Other	7,563	1,456	9,019	7,201	1,417	8,618
Total Bonds	54,753	10,752	65,505	51,634	9,673	61,307

Our bond portfolio as at December 31, 2010, included $4.2 billion of asset-backed securities reported at fair value, representing approximately 6% of the bond portfolio, or 4% of our total invested assets. This was unchanged from the level reported as at December 31, 2009. While the credit quality of our asset-backed securities deteriorated in 2010, previously established reserves based on the lifetime expected losses of these assets mitigated substantially all of the changes in the asset quality of the portfolio.

Asset-backed securities	**2010**			2009		
($ millions)	**Amortized cost**	**Fair value**	**BBB and higher**	Amortized cost	Fair value	BBB and higher
Commercial mortgage-backed securities	**1,962**	**1,870**	**87.1%**	2,219	1,772	92.9%
Residential mortgage-backed securities						
Agency	**654**	**685**	**100.0%**	735	768	100.0%
Non-agency	**1,000**	**731**	**65.4%**	1,318	886	80.2%
Collateralized debt obligations	**183**	**135**	**26.1%**	243	169	34.9%
Other*	**873**	**759**	**83.0%**	729	571	80.6%
Total	**4,672**	**4,180**	**82.7%**	5,244	4,166	87.5%

* Other includes sub-prime, a portion of the Company's exposure to Alternative –A ("Alt-A") and other asset-backed securities.

We determine impairments on asset-backed securities by using discounted cash flow models that consider losses under current and expected economic conditions, and a set of assumed default rates and loss-given-default expectations for the underlying collateral pools. Assumptions used include macroeconomic factors, such as commercial and residential property values and unemployment rates. Assumed default rates and loss-given-default expectations for the underlying collateral pool are assessed on a security-by-security basis based on factors such as the seasoning and geography of the underlying assets, whether the underlying assets are fixed or adjustable rate loans and the likelihood of refinancing at reset dates. If the cash flow modelling projects an economic loss and we believe the loss is more likely than not to occur, an impairment is recorded.

Due to the complexity of these securities, different sets of assumptions regarding economic conditions and the performance of the underlying collateral pools can fall into a reasonable range but lead to significantly different loss estimates. Our asset-backed portfolio is highly sensitive to fluctuations in macroeconomic factors, assumed default rates for the underlying collateral pool and loss-given-default expectations. In addition, our asset-backed portfolio has exposure to lower-rated securities that are highly leveraged, with relatively small amounts of subordination available below our securities to absorb losses in the underlying collateral pool. For these securities, if a relatively small percentage of the underlying collateral pool defaults, we may lose all of our principal investment in the security.

Further write downs of our asset-backed securities may result from continued deterioration in economic factors, such as property values and unemployment rates, or changes in the assumed default rate of the collateral pool or loss-given-default expectations. In addition, foreclosure proceedings and the sale of foreclosed homes have been delayed at certain U.S. financial institutions. It is difficult to estimate the impact of these delays, but they could have an adverse impact on our residential mortgage-backed portfolio depending on their magnitude.

As at December 31, 2010, we had indirect exposure to residential sub-prime and Alternative-A ("Alt-A") loans of $132 million and $100 million, respectively, together representing approximately 0.2% of our total invested assets. Of these investments, 89% either were issued before 2006 or have an "AAA" rating. Alt-A loans generally are residential loans made to borrowers with credit profiles that are stronger than sub-prime but weaker than prime.

Mortgages and Corporate Loans

As at December 31, 2010, our mortgage portfolio consisted mainly of commercial mortgages with a carrying value of $12.8 billion, spread across approximately 3,800 loans, an amount consistent with the December 31, 2009 level. Commercial mortgages include retail, office, multi-family, industrial and land properties. Our commercial portfolio has a weighted average loan-to-value of approximately 60%. While we generally require a maximum loan-to-value ratio of 75%, we may invest in mortgages with a higher loan-to-value ratio in Canada if the mortgage is insured. The estimated weighted average debt service coverage is 1.6 times, consistent with prior year-end levels. The Canada Mortgage and Housing Corporation insures 23% of the Canadian commercial mortgage portfolio. As at December 31, 2010, the mix of the mortgage portfolio was 81% non-residential and 19% residential, and approximately 43% of mortgage loans will mature by December 31, 2015.

As at December 31, 2010, we held $6.5 billion in corporate loans compared to $5.7 billion in 2009. The carrying values of mortgages and corporate loans by geographic location as at December 31 is shown in the following table. Residential mortgages include mortgages for both single and multiple family dwellings.

Mortgages by Type and Location

($ millions)	Residential	Non-residential	Total
December 31, 2010			
Canada	**2,270**	**5,154**	**7,424**
United States	**216**	**5,333**	**5,549**
United Kingdom	**–**	**48**	**48**
Total mortgages	**2,486**	**10,535**	**13,021**
Corporate loans			**6,490**
Total mortgages and corporate loans			**19,511**
December 31, 2009			
Canada	2,341	5,193	7,534
United States	280	5,905	6,185
United Kingdom	–	57	57
Total mortgages	2,621	11,155	13,776
Corporate loans			5,673
Total mortgages and corporate loans			19,449

In the United States, a gradual recovery of the commercial real estate market has begun, but is fractured with a disparity between stabilized “core” properties within primary markets and lower quality assets or those located in secondary markets. Capitalization rates continue to decline for quality properties that are both well located and leased. Despite the improvement in the overall economy, a prolonged increase in real estate demand will be dependent upon job creation, which continues to lag. Due to the length of the downturn, many borrowers have exhausted their financial resources, resulting in an increase in defaults and problem loans. These troubled loans have become more widespread across property types and geographic locations.

The distribution of mortgages and corporate loans by credit quality as at December 31 is shown in the following table.

December 31, 2010

($ millions)	Gross Carrying Value			Allowance for losses		
	Mortgages	Corporate loans	Total	Mortgages	Corporate loans	Total
Not past due	**12,553**	**6,460**	**19,013**	**-**	**-**	**-**
Past due:						
Past due less than 90 days	**73**		**73**	**-**	**-**	**-**
Past due 90 to 179 days	**-**	**-**	**-**	**-**	**-**	**-**
Past due 180 days or more	**-**	**-**	**-**	**-**	**-**	**-**
Impaired	**583**	**58**	**641**	**188**[1]	**28**	**216**
Balance, December 31, 2010	**13,209**	**6,518**	**19,727**	**188**	**28**	**216**

(1) Includes $76 million of sectoral provisions

December 31, 2009

($ millions)	Gross Carrying Value			Allowance for losses		
	Mortgages	Corporate loans	Total	Mortgages	Corporate loans	Total
Not past due	13,600	5,649	19,249	–	–	–
Past due:						
Past due less than 90 days	30		30	–	–	–
Past due 90 to 179 days	–	–	–	–	–	–
Past due 180 days or more	–	1	1	–	–	–
Impaired	252	33	285	106[2]	10	116
Balance, December 31, 2009	13,882	5,683	19,565	106	10	116

(2) Includes $55 million of sectoral provisions

Net impaired assets for mortgages and corporate loans, net of allowances for losses, amounted to $425 million as at December 31, 2010, $256 million higher than the December 31, 2009 level for these assets. The gross carrying value of impaired mortgages rose by $331 million to $583 million at December 31, 2010. The majority of this increase related to mortgages for which a specific provision was recorded. The remainder of this increase related to mortgages considered to be impaired because the terms of the loan were modified, but for which a full recovery of principal is expected. The allowance for losses related to mortgages rose to $188 million at December 31, 2010 from $106 million as at December 31, 2009. The addition of new provisions on specific mortgages was partly offset by adjustments to provisions previously recorded, realized losses charged against this allowance and currency movements. The sectoral provision related to mortgages included in the allowance increased by $21 million to $76 million, which reflects our anticipation of continued pressure in the commercial mortgage market. Approximately 89% of the impaired mortgage loans are in the United States.

Stocks

Our equity portfolio is diversified, and approximately 60% of this portfolio is invested in exchange-traded funds ("ETFs"). The main ETF holdings are in the S&P/TSX 60 Index Fund, Standard & Poor's Depository Receipts and MSCI EAFE Index Funds.

The carrying value of stocks by issuer country as at December 31 is shown in the following table.

	2010			2009		
Stocks by Issuer Country ($ millions)	**HFT Stocks**	**AFS Stocks**	**Total**	HFT Stocks	AFS Stocks	Total
Canada	**2,637**	**121**	**2,758**	2,301	115	2,416
United States	**1,161**	**486**	**1,647**	1,110	460	1,570
United Kingdom	**241**	**51**	**292**	495	16	511
Other	**385**	**150**	**535**	425	44	469
Total Stocks	**4,424**	**808**	**5,232**	4,331	635	4,966

As at December 31, 2010, $2.8 billion, or 53%, of our equity portfolio consisted of Canadian issuers; $1.6 billion, or 31%, of U.S. issuers; $292 million, or 6%, of U.K. issuers; and $535 million, or 10%, of issuers from other jurisdictions. Excluding ETF funds, mutual funds and the equity investment in The Bank of Nova Scotia received as a result of the sale of CI Financial ($278 million of preferred shares, or 5.3%), only one issuer exceeded 1% of the equity portfolio as at December 31, 2010.

Real Estate

Commercial properties, which consist primarily of office, retail and industrial properties, are the major component of our real estate portfolio, representing approximately 86% of real estate investments as at December 31, 2010. Our real estate investments are diversified by country, with 68% of the portfolio located in Canada, 27% in the United States and the remaining 5% are in the United Kingdom and the Philippines as at December 31, 2010.

The carrying value of real estate by issuer country as at December 31 is shown in the following table.

Real Estate by Issuer Country ($ millions)	**2010**	2009
Canada	**3,370**	3,246
United States	**1,323**	1,373
United Kingdom	**225**	257
Other	**1**	1
Total Real Estate	**4,919**	4,877

Gains on the sale of real estate remain on our balance sheet, and are deferred and amortized into future investment income at a quarterly rate of 3% of the unamortized balance. We had $219 million in deferred net realized gains on real estate as at December 31, 2010.

Derivative Financial Instruments and Risk Mitigation

The fair value of derivative assets held by the Company was $1.6 billion, while the fair value of derivative liabilities was $0.7 billion as at December 31, 2010. Derivatives designated as hedges for accounting purposes and those not designated as hedges represented 13% and 87%, respectively, on a total notional basis.

Derivatives designated as hedges for accounting purposes are designed to minimize balance sheet and income statement mismatches. These derivatives are documented at inception and hedge effectiveness is assessed on a quarterly basis.

We use derivative instruments to manage risks related to interest rate, equity market and currency fluctuations and in replication strategies to reproduce permissible investments. We use certain cross-currency interest rate swaps designated as fair value hedges to manage foreign currency associated with AFS assets. Certain interest rate swaps are used to hedge interest rate exposure of associated liabilities. Certain equity forwards are designated as cash flow hedges of the anticipated payments of awards under certain stock-based compensation plans. We also use currency swaps and forwards designated as net investment hedges to reduce foreign exchange fluctuations associated with certain foreign currency investment financing activities. Our hedging strategy does not hedge all risks; rather, it is intended to keep us within our risk appetite.

The primary uses of derivatives in 2010 are summarized in the table below.

Products/Application	Uses of Derivative	Derivative Used
U.S. universal life contracts 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	Swaptions, swaps and spread locks on interest rates
Interest rate exposure in relation to asset-liability management	To manage the sensitivity of the duration gap between assets and liabilities 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 and interest rate levels	Put and call options on equity indices; futures on equity indices, government bonds and interest rates; interest rate swaps
U.S. fixed index annuities	To manage the exposure to product guarantees related to equity market performance	Futures and options on equity indices; swaps and futures on government bonds
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

In addition to the general policies and monitoring, we use a variety of tools in counterparty risk management. Over-the-counter derivative transactions are performed under International Swaps and Derivatives Association, Inc. ("ISDA") Master Agreements. Most of the ISDAs are accompanied by a Credit Support Annex, which requires daily collateral posting.

The values of our derivative instruments are summarized in the following 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.

The total notional amount of derivatives in our portfolio decreased to $43.7 billion as at December 31, 2010, from $47.3 billion at the end of 2009, primarily due to a decrease in interest rate and equity contracts partially offset by an increase in foreign exchange contracts. The net fair value increased to $929 million in 2010 from the 2009 year-end amount of $125 million. The change was primarily due to the unwinding and maturity of some contracts which were in a loss position a year ago, as well as an increase in the market value of interest rate and foreign exchange contracts resulting from increases in interest rates and the strengthening of the Canadian dollar relative to foreign currencies.

($ millions)	2010	2009
As at December 31		
Net fair value	**929**	125
Total notional amount	**43,717**	47,260
Credit equivalent amount	**1,231**	1,010
Risk-weighted credit equivalent amount	**9**	7

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, 2010, the credit equivalent amounts for interest rate contracts, foreign exchange contracts, and equity and other contracts were $336 million, $803 million and $92 million, respectively. The corresponding risk-weighted credit equivalent amounts were $2 million, $6 million and $1 million, respectively. Additional details in respect of derivatives are included in Notes 5 and 6 to our 2010 Consolidated Financial Statements.

Impaired Assets

Financial assets that are classified as HFT, which represented 59% of our 2010 invested assets, do not have allowances for losses since changes in the fair value of these assets are recorded to income and the assets are recorded at fair value on the balance sheet. The invested asset values and ratios presented in this section are based on the carrying value of the respective asset categories. Carrying values for AFS and HFT invested assets are generally equal to fair value. In the event of default, if the amounts recovered are insufficient to satisfy the related actuarial liability cash flows that the assets are intended to support, credit exposure may be greater than the carrying value of the asset.

Net impaired assets for mortgages and corporate loans, net of allowances, amounted to $425 million as at December 31, 2010, $256 million higher than the December 31, 2009 level for these assets.

In addition to allowances reflected in the carrying value of mortgages and corporate loans, we have provided $2.9 billion for possible future asset defaults over the lifetime of our actuarial liabilities as at December 31, 2010. To the extent an asset is written off or disposed of, any amounts set aside for possible future asset defaults in actuarial liabilities in respect of that asset will be released into income. The $2.9 billion for possible future asset defaults excludes the portion of the provision that can be passed through to participating policyholders and provisions for possible reductions in the value of equity and real estate assets supporting actuarial liabilities.

AFS bonds, stocks and other invested assets are generally identified as temporarily impaired if their amortized cost is greater than their fair value, resulting in an unrealized loss. Unrealized losses may be due to interest rate fluctuations or depressed fair values in sectors which have experienced unusually strong negative market reactions. The fair value of temporarily impaired financial assets represented $3.1 billion and the associated unrealized losses amounted to $0.2 billion as at December 31, 2010. Our gross unrealized losses as at December 31, 2010, for AFS and HFT bonds were $0.1 billion and $1.2 billion, respectively, compared with $0.4 billion and $2.4 billion, respectively, as at December 31, 2009. The decrease in gross unrealized losses was largely due to decreases in interest rates and a narrowing of credit spreads, which had a positive impact on the fair value of bonds.

Additional details concerning impaired assets can be found in Note 6 to our 2010 Consolidated Financial Statements.

Risk Management

Risk Management Framework

We have a comprehensive framework for the management of enterprise risk. This framework highlights five major categories of risk (credit risk, market risk, insurance risk, operational risk and strategic risk) and sets out key processes for their management in the areas of risk appetite articulation, risk identification, measurement and assessment, risk response development, monitoring and control, and risk reporting and communication.

The framework recognizes the important role that risk culture plays in the effective management of enterprise risk. Our risk culture is supported by a strong “tone from the top”, which is reinforced and emanates from the Board of Directors and cascades through the Board Committees, our executive officers, line management and staff. A key premise of our enterprise risk management culture is that all employees and distributors have an important role to play in managing enterprise risks, and collectively form part of our extended risk management team.

Our enterprise risk management framework is rooted in a corporate risk philosophy that reflects the understanding that we are in the business of taking risk for appropriate return. This is core to our corporate vision, mission and customer value proposition. Effective risk-taking and risk management are critical to the overall profitability, competitive market positioning and long-term financial viability of the Company. We seek to instill a disciplined approach to optimizing the inherent tradeoffs between risk and return in all our risk management practices.

Risk Philosophy and Principles

Our risk philosophy reflects a number of core principles that embody our overall risk appetite and values. These principles are outlined below:

Strategic Alignment

Our risk appetite is aligned with the Company’s overall vision, mission and business goals. This alignment is obtained by the consideration of which risks are deemed core, non-core or collateral risks.

Core risks are those risks that we are willing to accept in order to achieve return expectations and successfully achieve our stated mission to “help customers achieve lifetime financial security”, and our business objectives. These core risks include equity, interest rate, mortality, morbidity, asset-liability management and credit risks. We have established a range of explicit risk appetite limits and operational control points for these core risks.

Non-core risks are those associated with activities outside of our risk appetite and approved business strategies and are therefore generally avoided, regardless of expected returns.

Collateral risks are those that are incurred as a by-product or are collateral to the pursuit of the risk and return optimization of core risks. Operational risks often fall into this category. We endeavour to mitigate collateral risks to the extent that the benefit of risk reduction is commensurate with the cost of mitigation.

Stakeholder Interests

Our risk framework considers the interests of a large number of key stakeholder groups, including policyholders, shareholders, debt-holders, employees, regulators, rating agencies and other capital market participants. Our risk framework endeavours to appropriately balance the needs, expectations, risk and reward perspectives and investment horizons of these stakeholders. In particular, our risk appetite framework is established to support the pursuit of shareholder value while ensuring that our ability to pay claims and fulfill long-term policyholder commitments is not compromised. Our risk management approach is designed to support long-term credit and financial strength ratings, strong capital levels, ongoing favourable access to capital markets and the continuing enhancement of our overall franchise value and brand.

Our executive compensation philosophy recognizes the importance and contribution of a highly effective and motivated leadership team in pursuing sustainable growth in shareholder value. We remain committed to ensuring that the design and governance of overall compensation practices are aligned with our risk philosophy, principles and policies.

Capability Alignment

Our risk appetite is aligned with our inherent risk management capabilities. Our ability to perform robust risk assessments, the quality of our risk governance and control environment and the depth and quality of our innovative risk response and pricing strategies are particularly important capabilities in this regard. We proactively seek out profitable risk-taking opportunities in those areas where we have established risk management skills and capabilities. Conversely, we endeavour to avoid risks that are beyond our risk-taking capability.

Risk Budgeting

We seek to allocate our risk-taking capacity in a manner that optimizes the overall level of risk-adjusted returns and stakeholder value creation. Budgeting of risk-taking capacity is managed through the application of prescribed risk tolerance limits and the embedding of strong risk management discipline into a wide range of key management decision-making processes.

Portfolio Perspective

Risk/return trade-offs are assessed and managed not only based on the intrinsic merits of a particular opportunity, but also relative to their marginal contribution to our overall risk profile and business portfolio. This perspective is extended to the development of risk mitigation and pricing strategies, recognizing that often the most cost-effective way of managing risk involves utilizing available diversification relationships already inherent in our business model and risk portfolio.

Risk to Reputation

A financial institution's reputation is one of its most important assets. We recognize the increasingly important and high profile role that a strong enterprise-wide risk management discipline can play in this regard. A key objective of our enterprise risk management framework is to help ensure that it continues to operate under standards that support its ability to maintain and build upon a sound corporate reputation and brand.

Accountability

Our enterprise-wide risk management framework sets out lines of responsibility and authority for risk-taking, governance and control.

The Company's Board of Directors is ultimately responsible for ensuring that risk management policies and practices are in place. Through approval of our risk appetite and ongoing oversight, the Board of Directors ensures that our principal risks are appropriately identified and managed. The Board of Directors has delegated this function to its Risk Review Committee, which is a standing committee of the Board of Directors. That Committee is comprised of independent directors, whose primary functions are to assist the Board of Directors with its oversight role with respect to the review and approval of risk management policies, ensuring the identification of major areas of risk facing the Company and the development of strategies to manage those risks, and to review compliance with risk management policies implemented by the Company.

The Board of Directors has delegated the approval of investment risk management policies to its Investment Oversight Committee. This committee, also composed of independent directors, is responsible for the oversight of investment policies, practices, procedures and controls related to the management of the general fund investment portfolio, the approval and monitoring of the annual Investment Plan and monitoring the investment performance of enterprise pension and savings plans.

The Board of Directors has delegated the approval of compliance risk management policies to its Governance and Conduct Review Committee. This committee is also composed of independent directors. Its primary functions are to assist the Board of Directors with its oversight role by developing effective corporate governance guidelines and processes; reviewing policies and processes to sustain ethical behaviour; reviewing reports related to compliance with legal and regulatory matters; assessing the effectiveness of the Board of Directors and its Committees as well as the contributions of individual Directors; and identifying and recommending for election as Directors those individuals with Board-determined competencies, skills and qualities who are best suited to complement the current Board composition.

Primary accountability for risk management is delegated by the Board of Directors to the Company's CEO, and the CEO further delegates responsibilities throughout the Company through a framework of management authorities and responsibilities. The CEO delegates line accountability for the various classes of risk management to our executive officers, who are accountable for ensuring the day-to-day management of enterprise risk in their scope of business accountability in accordance with Board approved risk policies and this framework. In particular, business segment leaders have overall, front line accountability for managing the risks in their operations and are supported by a network of business segment compliance and risk officers.

Our governance model for risk management also includes oversight from the various functional heads in the Corporate Office. There are functional heads for all key business oversight functions such as the Chief Compliance Officer, the Chief Privacy Officer and the Chief Internal Auditor. The Internal Audit function supports our risk management activities through ongoing assessments of the effectiveness of, and adherence to, internal controls. All of the functional heads support the Chief Risk Officer (the "CRO") in the development and communication of the Company's enterprise risk management function. The responsibilities of the CRO role include developing and implementing enterprise-wide risk management strategies aimed at optimizing our global risk/return profile and providing independent functional oversight of our enterprise-wide risk management programs by ensuring that effective risk management processes are in place for risk identification, risk measurement and assessment, risk response development, risk monitoring and control, and reporting and communication of risks inherent in our activities.

Risk Management Policies

In order to support the effective communication, implementation and governance of our enterprise risk framework, we have codified our processes and operational requirements in a comprehensive series of risk management policies and operating guidelines. These polices and guidelines promote the application of a consistent approach to managing risk exposures across our global business platform. These risk management policies are reviewed and approved annually by the Risk Review Committee, Investment Oversight Committee and Governance and Conduct Review Committee. These Committees also receive an annual report summarizing management's attestation of compliance to these policies.

Risk Categories

The shaded text and tables in the following section of this MD&A represent our disclosure on credit, market and liquidity risks in accordance with CICA Handbook Section 3862, *Financial Instruments – Disclosures*, and includes discussion on how we measure risk and our objectives, policies and methodologies for managing these risks. Therefore, the shaded text and tables represent an integral part of our audited 2010 Annual Consolidated Financial Statements for the years ended December 31, 2010, and December 31, 2009. The shading in this section does not imply that these disclosures are of any greater importance than non-shaded tables and text, and the Risk Management disclosure should be read in its entirety.

Our Enterprise Risk Management Framework highlights five major risk categories – Credit Risk, Market Risk, Insurance Risk, Operational Risk and Strategic Risk.

Credit Risk

Risk Description

Credit risk is the risk of loss from not receiving amounts owed by our financial counterparties. We are subject to credit risk in connection with issuers of securities held in our investment portfolio, debtors (e.g., mortgagors), structured securities, reinsurers, derivative counterparties, other financial institutions (e.g., amounts held on deposit) and other entities. Losses may occur when a counterparty fails to make timely payments pursuant to the terms of the underlying contractual arrangement or when the counterparty's credit rating or risk profile otherwise deteriorates. Credit risk can also arise in connection with deterioration in the value of or ability to realize on any underlying security that may be used to collateralize the debt obligation (e.g., real estate property values in the case of mortgage obligations). Credit risk can occur at multiple levels, as a result of broad economic conditions, challenges within specific sectors of the economy, or from issues affecting individual companies. Events that result in defaults, impairments or downgrades of the securities in our investment portfolio would cause the Company to record realized or unrealized losses and increase our provisions for asset default, adversely impacting earnings.

Credit Risk Management Governance and Control

Our core principles of credit risk management include asset diversification, fundamental research and analysis of cash flows, proactive and continuous monitoring, active management and relative value assessment, with the objective of optimizing risk adjusted returns, with due consideration for the impacts of capital and taxation.

Key controls utilized in the management and measurement of credit risk are outlined below:

- Enterprise-wide risk appetite and tolerance limits have been established for credit risk
- Ongoing monitoring and reporting of credit risk sensitivities against pre-established risk tolerance limits
- Detailed credit risk management policies, guidelines and procedures
- Specific investment diversification requirements such as investing by asset class, geography and industry
- Risk based credit portfolio, counterparty and sector exposure limits
- Mandatory use of credit quality ratings for portfolio investments which are established and reviewed regularly
- Comprehensive due diligence processes and ongoing credit analysis
- Regulatory solvency requirements that include risk based capital requirements
- Comprehensive compliance monitoring practices and procedures including reporting against pre-established investment limits
- Reinsurance exposures are monitored to ensure that no single reinsurer represents an undue level of credit risk
- Stress-testing techniques, such as Dynamic Capital Adequacy Testing, are used to measure the effects of large and sustained adverse credit developments
- Reserve provisions are established in accordance with standards set forth by the Canadian Institute of Actuaries
- Target capital levels that exceed regulatory minimums
- Active credit risk governance including independent monitoring and review and reporting to senior management and the Board

Additional information concerning credit risk can be found in Note 6A to our 2010 Consolidated Financial Statements.

Market Risk

Risk Description

We are exposed to significant financial and capital market risk – the risk that the fair value or future cash flows of an insurance contract or financial instrument will fluctuate because of changes in market prices. Market risk includes the following types of risk: (i) equity market risk, resulting from changes in equity market prices; (ii) interest rate risk, resulting from changes in interest rates or credit/swap spreads; (iii) currency risk, resulting from changes in foreign exchange rates; and (iv) real estate risk. In addition, we are subject to other price risk resulting from changes in market prices other than those arising from equity risk, interest rate risk, currency risk or real estate risk, whether those changes are caused by factors specific to the individual insurance contract, financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

These factors can also give rise to liquidity risk if we are forced to sell assets at depressed market prices in order to fund our commitments. Market changes and volatility could be the result of general capital market conditions or specific social, political or economic events.

Market Risk Management Governance and Control

We employ a wide range of market risk management practices and controls, as outlined below:

- Enterprise-wide risk appetite and tolerance limits have been established for market risk
- Ongoing monitoring and reporting of market risk sensitivities against pre-established risk tolerance limits
- Detailed asset-liability/market risk management policies, guidelines and procedures are in place
- Management and governance of market risks is achieved through various asset-liability management committees that oversee key market risk strategies and tactics, review compliance with applicable policies and standards, and review investment and hedging performance
- Hedging and asset-liability management programs are maintained in respect of key selected market risks
- Product development and pricing policies that require a detailed risk assessment and pricing provisions for material market risks
- Stress-testing techniques, such as Dynamic Capital Adequacy Testing, are used to measure the effects of large and sustained adverse market movements
- Reserve provisions are established in accordance with standards set forth by the Canadian Institute of Actuaries
- Target capital levels that exceed regulatory minimums .

Equity Market Risk

We are exposed to equity risk from a number of sources. Our primary exposure to equity risk arises, in connection with the underwriting of benefit guarantees on variable annuity and segregated fund annuity contracts (i.e., segregated fund products in SLF Canada, variable annuities in SLF U.S. and run-off reinsurance in our Corporate segment). These benefit guarantees are linked to underlying fund performance and may be triggered upon death, maturity, withdrawal or annuitization.

We also derive a portion of our revenue from fee income generated by our asset management businesses and from certain insurance and annuity contracts where fee income is levied on account balances that generally move in line with equity market levels. Accordingly, adverse fluctuations in the market value of such assets would result in corresponding adverse impacts on our revenue and net income. In addition, declining and volatile equity markets may have a negative impact on sales and redemptions (surrenders) for this business, resulting in further adverse impacts on our net income and financial position.

We also have direct exposure to equity markets from the investments supporting other general account liabilities, surplus and employee benefit plans. These exposures generally fall within our risk-taking philosophy and appetite and are therefore generally not hedged.

Interest Rate Risk

Interest rate risk is the potential for financial loss arising from changes or volatility in interest rates or credit/swap spreads when assets and liability cash flows do not coincide. We are exposed to interest rate 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 in unfavourable interest rate environments. The impact of changes or volatility in interest rates or credit/swap spreads are reflected in the valuation of our financial assets and liabilities for insurance contracts in respect of insurance and annuity products.

Certain products have explicit or implicit interest rate guarantees in the form of settlement options, minimum guaranteed crediting rates and guaranteed premium rates. If investment returns fall below those guaranteed levels, we may be required to increase liabilities or capital in respect of these insurance contracts. The guarantees attached to these products may be applicable to both past premiums collected and future premiums not yet received. Our primary residual exposure to interest rate risk arises from certain insurance products with guaranteed premium rates or minimum interest guarantees. These products are included in our asset-liability management program and the residual interest rate exposure is managed within risk tolerance limits.

Declines in interest rates or narrowing credit/swap spreads can result in compression of the net spread between interest earned on investments and interest credited to policyholders. Declines in interest rates or narrowing credit/swap spreads may also result in increased asset calls, mortgage prepayments and net reinvestment of positive cash flows at lower yields, and therefore adversely impact our profitability and financial position. In contrast, increases in interest rates or a widening of credit/swap spreads may have a material impact on the value of fixed income assets, resulting in depressed market values, and may lead to losses in the event of the liquidation of assets prior to maturity.

Significant changes or volatility in interest rates, or credit/swap spreads could have a negative impact on sales of certain insurance and annuity products, and adversely impact the expected pattern of redemptions (surrenders) on existing policies. Increases in interest rates or widening credit/swap spreads may increase the risk that policyholders will surrender their contracts, forcing us to liquidate investment assets at a loss and accelerate recognition of certain acquisition expenses. While we have established hedging programs in place and our insurance and annuity products often contain surrender mitigation features, these may not be sufficient to fully offset the adverse impact of the underlying losses on asset sales.

We also have direct exposure to interest rates and credit/swap spreads from investments supporting other general account liabilities, surplus and employee benefit plans. Lower interest rates or a narrowing of credit/swap spreads will result in reduced investment income on new fixed income asset purchases. Conversely, higher interest rates or wider credit/swap spreads will reduce the value of our existing assets. These exposures generally fall within our risk-taking philosophy and appetite and are therefore generally not hedged.

We have implemented ongoing asset-liability management and hedging programs involving regular monitoring and adjustment of risk exposures using financial assets, derivative instruments and repurchase agreements to maintain interest rate exposures within our risk tolerances. The general availability and cost of these hedging instruments may be adversely impacted by changes in interest rate levels and volatility, and in addition, these programs may themselves expose us to other risks.

A sustained low interest rate environment may adversely impact the primary demand for a number of our core insurance offerings requiring a significant repositioning of the product portfolio, and also increase the likelihood of higher surrenders (redemptions) and insurance claims (for example, increased incidence and reduced termination rates in respect of disability related claims). This may contribute to adverse developments in revenues and cost trends and our overall profitability.

Market Risk Sensitivities

We utilize a variety of methods and measures to quantify our market risk exposures. These include duration management, key rate duration techniques, convexity measures, cash flow gaps, scenario testing, and sensitivity testing of earnings and regulatory capital ratios versus risk tolerance limits which are calibrated to our risk appetite.

Our earnings are affected by the determination of policyholder obligations under our annuity and insurance contracts. These amounts are determined using internal valuation models and are recorded in the Company's Consolidated Financial Statements, primarily as actuarial liabilities. The determination of these obligations requires that we make assumptions about the future level of equity market performance, interest rates and other factors over the life of our products. Differences between our actual experience and our best estimate assumptions are reflected in the financial statements. Debt securities and equities designated as AFS generally do not support liabilities. Changes in the fair value of AFS debt securities and equities are recorded to OCI. The following table sets out the estimated immediate impact or sensitivity of our net income and OCI to certain instantaneous changes in interest rates and equity market prices as at December 31, 2010, independently, assuming all other variables remain constant. In addition, we have provided the estimated impact on our MCCSR ratio using the same instantaneous changes in interest rates and equity market prices.

Market Risk Sensitivities

as at December 31, 2010

Changes in interest rates[1]	Net income[3] ($ millions)	Increase (decrease) in after-tax OCI ($ millions)	MCCSR[4]
1% increase	$50 to $150	$(300) to $(400)	Up to 8 percentage points increase
1% decrease	$(150) to $(250)	$325 to $425	Up to 10 percentage points decrease
Changes in equity markets[2]			
10% increase	$25 to $75	$25 to $75	Up to 5 percentage points increase
10% decrease	$(125) to $(175)	$(25) to $(75)	Up to 5 percentage points decrease
25% increase	$50 to $150	$100 to $200	Up to 5 percentage points increase
25% decrease	$(475) to $(575)	$(100) to $(200)	Up to 10 percentage points decrease

as at December 31, 2009

Changes in interest rates[1]	Net income[3] ($ millions)	Increase/(decrease) in after-tax OCI ($ millions)	MCCSR[4]
1% increase	$(50) to $50	$(375) to $(425)	Up to 8 percentage points increase
1% decrease	$(150) to $(250)	$375 to $425	Up to 12 percentage points decrease
Changes in equity markets[2]			
10% increase	$75 to $125	$25 to $75	Up to 5 percentage points increase
10% decrease	$(150) to $(200)	$(25) to $(75)	Up to 5 percentage points decrease
25% increase	$150 to $250	n/a	Up to 5 percentage points increase
25% decrease	$(475) to $(575)	n/a	Up to 15 percentage points decrease

(1) Represents a 1% parallel shift in assumed interest rates across the entire yield curve as at December 31. Variations in realized yields based on different terms to maturity, asset class types, credit spreads and ratings may result in realized sensitivities being significantly different from those illustrated above.

(2) Represents the respective change across all equity markets as at December 31. Assumes that actual equity exposures consistently and precisely track the broader equity markets. Since in actual practice equity-related exposures generally differ from broad market indices (due to the impact of active management, basis risk and other factors), realized sensitivities may differ significantly from those illustrated above.

(3) The market risk sensitivities include the expected mitigation impact of our hedging programs in effect as at December 31 and include new business added and product changes implemented during the year.

(4) The MCCSR sensitivities illustrate the impact on the MCCSR ratio for Sun Life Assurance as at December 31. This excludes the impact on assets and liabilities that are included in Sun Life Financial but not included in Sun Life Assurance.

We used a 1% increase (decrease) in interest rates and a 10% increase (decrease) in our equity markets to determine the above sensitivities because we believe that these market shocks were reasonably possible as at December 31, 2010. We have also disclosed the impact of a 25% increase or decrease in our equity market sensitivity to illustrate that changes in equity markets in excess of 10% may result in other than proportionate impacts.

Variable Annuity and Segregated Fund Guarantees

Approximately 80% to 90% of our sensitivity to equity market risk is derived from segregated fund products in SLF Canada, variable annuities in SLF U.S. and run-off reinsurance in our Corporate business segment. These products provide benefit guarantees, which are linked to underlying fund performance and may be triggered upon death, maturity, withdrawal or annuitizations.

The following table provides information with respect to the guarantees provided in the Company's variable annuity and segregated fund businesses.

Variable Annuity and Segregated Fund Risk Exposures

($ millions)

	December 31, 2010			
	Fund value	**Amount at risk[1]**	**Value of guarantees[2]**	**Actuarial liabilities[3]**
SLF Canada	**12,494**	**300**	**11,347**	**116**
SLF U.S.	**23,923**	**2,064**	**25,697**	**221**
Run-off reinsurance[4]	**3,070**	**642**	**2,614**	**403**
Total	**39,487**	**3,006**	**39,658**	**740**

	December 31, 2009			
	Fund value	Amount at risk[1]	Value of guarantees[2]	Actuarial liabilities[3]
SLF Canada	10,796	539	10,380	215
SLF U.S.	21,069	3,006	23,944	675
Run-off reinsurance[4]	3,049	811	2,930	452
Total	34,915	4,356	37,254	1,342

(1) The "amount at risk" represents the excess of the value of the guarantees over fund values on all policies where the value of the guarantees exceeds the fund value. The amount at risk is not currently payable as the guarantees are only payable upon death, maturity, withdrawal or annuitization if fund values remain below guaranteed values.

(2) For guaranteed lifetime withdrawal benefits, the "value of guarantees" is calculated as the present value of the maximum future withdrawals assuming market conditions remain unchanged from current levels. For all other benefits, the value of guarantees is determined assuming 100% of the claims are made at the valuation date.

(3) The "actuarial liabilities" represent management's provision for future costs associated with these guarantees in accordance with accounting guidelines and include a provision for adverse deviation in accordance with valuation standards.

(4) The run-off reinsurance business includes risks assumed through reinsurance of variable annuity products issued by various North American insurance companies between 1997 and 2001. This line of business has been discontinued and is part of a closed block of reinsurance which is included in our Corporate business segment.

The movement of the items in the table above from December 31, 2009 to December 31, 2010 was primarily as a result of:

(i) fund value increased due to favourable equity market movements and new business written in 2010. This was partially offset by the strengthening of the Canadian dollar against foreign currencies relative to prior period end exchange rates

(ii) the amount at risk decreased due to favourable equity market movements and the strengthening of the Canadian dollar against foreign currencies relative to prior period end exchange rates

(iii) the value of guarantees has increased as a result of net sales during the year and the associated increase in fund values, partially offset by the impact of the strengthening of the Canadian dollar relative to the prior period

(iv) actuarial liabilities decreased due to favourable equity market movements and the strengthening of the Canadian dollar against foreign currencies relative to prior period end exchange rates

The ultimate cost of providing for the guarantees in respect of the Company's variable annuity and segregated fund contracts is uncertain and will depend upon a number of factors including general capital market conditions, policyholder behaviour and mortality experience, each of which may result in negative impacts on net income and capital.

Variable Annuity and Segregated Fund Equity Hedging

We have implemented hedging programs, involving the use of derivative instruments, to mitigate a portion of the equity market-related volatility in the cost of providing for these guarantees, thereby reducing our exposure to this particular class of equity market risk. As at December 31, 2010, over 90% of our total variable annuity and segregated fund contracts, as measured by associated fund values, were included in an equity hedging program. This hedging program reduces our net income sensitivity to equity market declines from variable annuity and segregated fund contracts by approximately 55% to 65%. While a large percentage of contracts are included in the equity hedging program, not all of our equity exposure related to these contracts is hedged. For those variable annuity and segregated fund contracts included in the equity hedging program, we generally hedge the fair value of expected future net claims costs and a portion of the policy fees as we are primarily focused on hedging the expected economic costs associated with providing segregated fund and variable annuity guarantees. The following table illustrates the impact of our hedging program related to our sensitivity to a 10% and 25% decrease in equity markets for variable annuity and segregated fund contracts.

Impact of Variable Annuity and Segregated Fund Equity Hedging

	December 31, 2010	
Net income[1]	**10% decrease[2]**	**25% decrease[2]**
Before hedging	**(350) – (400)**	**(1,075) – (1,175)**
Equity hedging impact	**225 – 275**	**600 – 700**
Net of equity hedging	**(100) – (150)**	**(425) – (525)**

(1) Since the fair value of benefits being hedged will generally differ from the financial statement value (due to different valuation methods and the inclusion of valuation margins in respect of financial statement values), this approach will result in residual volatility to equity market shocks in reported income and capital. The general availability and cost of these hedging instruments may be adversely impacted by a number of factors, including volatile and declining equity and interest rate market conditions.

(2) Represents the respective change across all equity markets as at December 31, 2010. Assumes that actual equity exposures consistently and precisely track the broader equity markets. Since in actual practice equity-related exposures generally differ from broad market indices (due to the impact of active management, basis risk and other factors), realized sensitivities may differ significantly from those illustrated above.

Our hedging strategy is applied both at the line of business/product level and enterprise level using a combination of static (i.e., purchasing of longer dated equity put options) and dynamic (i.e. frequent re-balancing of short-dated equity derivative contracts) hedging techniques. We actively monitor our overall market exposure and may implement tactical hedge overlay strategies (primarily in the form of equity futures contracts) in order to align expected earnings sensitivities with enterprise risk management objectives.

Market Risk Sensitivities and Hedging – Additional Cautionary Language and Key Assumptions

Our market risk sensitivities are forward-looking information. These are measures of our estimated net income and capital sensitivities to the changes in interest rate and equity market levels described above, based on interest rates, equity market prices and business mix in place as at December 31. These sensitivities are calculated independently for each risk factor, generally assuming that all other risk variables stay constant. Actual results can differ materially from these estimates for a variety of reasons, including differences in the pattern or distribution of the market shocks, the interaction between these risk factors, model error or changes in other assumptions such as business mix, effective tax rates, policyholder behaviour, currency exchange rates and other market variables relative to those underlying the December 31 calculation dates for these sensitivities. These sensitivities also assume that a change to the current valuation allowance on future tax assets is not required. In addition, the MCCSR sensitivities are non-GAAP financial measures**.**

The sensitivities reflect the composition of our assets and liabilities as at December 31. Changes in these positions due to new sales or maturities, asset purchases/sales or other management actions could result in material changes to these reported sensitivities. In particular, these sensitivities reflect the expected impact of hedging activities based on the hedge assets and programs in place as at the December 31 calculation date. The actual impact of these hedging activities can differ materially from that assumed in the determination of these indicative sensitivities due to ongoing hedge re-balancing activities, changes in the scale or scope of hedging activities, changes in the cost or general availability of hedging instruments, basis risk (the risk that hedges do not exactly replicate the underlying portfolio experience), model risk and other operational risks in the ongoing management of the hedge programs or the potential failure of hedge counterparties to perform in accordance with expectations.

The sensitivities are based on financial reporting methods and assumptions in effect as at December 31. Changes in the regulatory environment, accounting or actuarial valuation methods, models or assumptions after this date could result in material changes to these reported sensitivities. Changes in interest rates and equity market prices in excess of the ranges illustrated may result in other- than-proportionate impacts.

Our hedging programs may themselves expose us to other risks such as basis risk (the risk that hedges do not exactly replicate the underlying portfolio experience), derivative counterparty credit risk, and increased levels of liquidity risk, model risk, and other operational risks as described in the Risk Factors section in our 2010 AIF. These factors may adversely impact the net effectiveness, costs and financial viability of maintaining these hedging programs and therefore adversely impact our profitability and financial position. While our hedging programs include various elements aimed at mitigating these effects (for example, hedge counterparty credit risk is managed by maintaining broad diversification, dealing primarily with highly rated counterparties and transacting through ISDA agreements that generally include applicable credit support annexes), residual risk and potential reported earnings and capital volatility remain.

For the reasons outlined above, these sensitivities should only be viewed as directional estimates of the underlying sensitivities of each factor under these specialized assumptions, and should not be viewed as predictors of the Company's future net income and capital sensitivities. Given the nature of these calculations, we cannot provide assurance that actual earnings and capital impacts will be within the indicated ranges.

Information related to market risk sensitivities and guarantees related to variable annuity and segregated fund products should be read in conjunction with the information contained in the Outlook, Critical Accounting Policies and Estimates and Risk Management sections in our 2010 annual MD&A and Risk Factors and Regulatory Matters in our AIF for the year ended December 31, 2010.

Currency Risk

Currency risk is the result of mismatches in the currency of our assets and liabilities (inclusive of capital), and cash flows. This risk may arise from a variety of sources such as foreign currency transactions and services, foreign exchange hedging, investments denominated in foreign currencies, investments in foreign subsidiaries and net income from foreign operations.

As an international provider of financial services, we operate in a number of countries, with revenues and expenses denominated in several local currencies. In each country in which we operate, we generally maintain the currency profile of assets so as to match the currency of aggregate liabilities and required surplus. This approach provides an operational hedge against disruptions in local operations caused by currency fluctuations. Foreign exchange derivative contracts such as currency swaps and forwards are used as a risk management tool to manage the currency exposure in accordance with our asset-liability risk management policy. As at December 31, 2010, and December 31, 2009, the Company did not have a material currency risk exposure on a functional currency basis.

Changes in exchange rates can however affect our net income and surplus when results in functional currencies are translated into Canadian dollars. Net income earned outside of Canada is generally not currency hedged and a weakening in the local currency of our foreign operations relative to the Canadian dollar can have a negative impact on our net income reported in Canadian currency, and vice versa.

Real Estate Price Risk

Real estate price risk is the potential for financial loss arising from fluctuations in the fair value or future cash flows of these asset types, and results from the ownership of, or fixed income investments secured by real estate property, leasehold interests, ground rents and purchase and leaseback transactions. Real estate price risk may arise from external market conditions, inadequate property analysis, inadequate insurance coverage, inappropriate real estate appraisals or from environmental risk exposures. We hold direct equity real estate investments supporting general account liabilities and surplus, and fluctuations in the value of these asset types will impact our profitability and financial position.

Insurance Risk

Risk Description

Insurance risk is the uncertainty of product performance due to differences between the actual experience and expected assumptions affecting amounts of claims, benefits payments, expenses and the cost of embedded options and guarantees related to insurance risks. This risk class includes risk factors relating to product development and pricing, mortality, morbidity, longevity, policyholder behaviour and reinsurance.

Insurance Risk Management Governance and Control

Insurance risk is managed through a number of enterprise-wide controls addressing a wide range of insurance risk factors, as follows:

- Enterprise-wide insurance underwriting and claims, product development and pricing, and reinsurance risk management policies
- Product development and pricing policies require detailed risk assessment and provision for material insurance risks
- Reserve provisions are established in accordance with standards set forth by the Canadian Institute of Actuaries
- Target capital levels established that exceed regulatory minimums
- Board-approved maximum retention limits (amounts issued in excess of these limits are reinsured)
- Various limits, restrictions and fee structures may be introduced into plan designs in order to establish more homogeneous policy risk profile and limit potential for anti-selection
- Enterprise underwriting and risk selection standards with oversight by corporate underwriting and claims risk management function
- Diversification and risk pooling is managed by aggregation of broad exposures across product lines, geography, distribution channels, etc.
- Experience studies (both Company specific and industry level) and Source of Earnings analysis are periodically monitored and factored into ongoing valuation, renewal and new business pricing processes
- Stress-testing techniques, such as Dynamic Capital Adequacy Testing, are used to measure the effects of large and sustained adverse movements in insurance risk factors
- We have established a reinsurance ceded policy to set acceptance criteria and protocols to monitor the level of reinsurance ceded to any single reinsurer or group of reinsurers. Our reinsurance counterparty risk profile is monitored closely, including through regular reporting to the Risk Review Committee of the Board of Directors

As part of our governance and control procedures, we review our global retention limits from time to time. Effective January 1, 2011, we increased our global mortality retention limit for individual life insurance from US$15 million to US$ 25 million, for business sold in Canada the new limit is $25 million. The limit for survivorship life insurance has increased from US$20 million to US$30 million, for business sold in Canada the new limit is $30 million. The changes in limits are not expected to have a material impact on our risk exposure.

Operational Risk

Risk Description

Operational risk is the uncertainty arising from larger than expected losses or damage to finances or reputation resulting from inadequate or failed internal processes, controls, people, systems, or from external events. This risk class encompasses a wide range of risks, including those pertaining to legal and regulatory, business continuity, model risk, information system security and privacy, outsourcing, fraud, environmental risk, human resource management and liquidity risk. Operational risk is also embedded in the practices utilized to manage other risks therefore, if not managed effectively, it can impact our ability to manage other key risks such as credit risk, market and insurance risk.

Operational Risk Management Governance and Control

Our governance practices, corporate values and Code of Conduct set the foundation for mitigation of operational risks. We perform ongoing monitoring and reporting of all significant operational risks, including regular briefings to senior management and Board Committees. We have established enterprise-wide policies and controls for all significant operational risks, including:

- Compliance: An enterprise-wide compliance framework has been established consisting of policies and operating guidelines and is supported by a network of compliance officers. Enterprise oversight is provided by the Chief Compliance Officer.
- Privacy: Privacy policies, privacy officers and processes have been established to provide guidance on handling private and confidential information and for reporting privacy issues to appropriate management for response and resolution. Enterprise oversight is provided by the Chief Privacy Officer.
- Financial Models: An enterprise-wide Management of Financial Models Policy and Business Segment Operating Guidelines have been established. These policies include a requirement that each business segment maintain an inventory of significant models and sets out expectations for associated documentation, review and testing. Risk assessments are conducted on significant models, and plans are developed to address identified sources of risk.
- Business Interruption: An enterprise-wide Business Continuity Policy has been established. Business continuity, crisis management and disaster recovery programs have been designed and implemented to ensure to the extent practically possible that key business functions can continue and normal operations can resume effectively and efficiently in the event of a major disruption. These programs are periodically tested, and each business unit maintains its own business continuity plans under the oversight of the global business continuity program.
- Information Security: An enterprise-wide security program has been established, consisting of policies, standards and processes. The program is aligned to appropriate industry standards and is compliant with applicable laws and regulations. Enterprise oversight is provided through the Chief Information Officer.
- Outsourcing: An enterprise-wide Outsourcing Policy and operating guidelines have been established to manage the risks associated with the outsourcing of business activities, functions or processes to a third-party provider.

- Human Resources: Human resources policies and standards have been developed and implemented. We are committed to employee training and development, and our compensation program is designed to attract, motivate and retain high-performing employees and to encourage sound risk management by all employees. We endeavour to assess talent through leadership review processes and build leadership bench strength and depth to succession options through enterprise leadership development programs. Employee engagement is monitored through enterprise-wide employee engagement surveys and strategies are implemented to address any issues.
- Environment: An environmental risk management program, which reflects our commitment to conducting all business activities in a manner that recognizes the need to preserve the quality of the environment, 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.

Liquidity Risk

We generally maintain a conservative liquidity position and employ a wide range of liquidity risk management practices and controls, which are described below:

- Liquidity is managed in accordance with our liquidity policies and operating guidelines
- Stress testing of our liquidity is performed by comparing liquidity coverage ratios under 1-month and 1-year stress scenarios to our policy thresholds. These liquidity ratios are measured and managed at the business segment level, and the total Company level.
- Cash management and asset-liability management programs support our ability to maintain our financial position by ensuring that sufficient cash flow and liquid assets are available to cover potential funding requirements. We invest in various types of assets with a view of matching them to our liabilities of various durations.
- Target capital levels exceed regulatory minimums. We actively manage and monitor our capital and asset levels, and the diversification and credit quality of our investments
- We maintain various credit facilities for general corporate purposes
- We also maintain liquidity contingency plans for the management of liquidity in the event of a liquidity crisis

The following table summarizes the contractual maturities of our significant financial liabilities and contractual commitments as at December 31, 2010.

Financial Liabilities and Contractual Obligations

December 31, 2010 ($ millions)	Within 1 year	1 year to 3 years	3 years to 5 years	Over 5 years	Total
General fund policy liabilities [1]	11,800	10,321	10,029	151,820	183,970
Senior debentures and unsecured financing [2]	231	462	462	9,454	10,609
Subordinated debt [2]	171	343	500	3,908	4,922
Bond repurchase agreements	1,270	–	–	–	1,270
Accounts payable and accrued expenses	2,678	–	–	–	2,678
Borrowed funds [2]	94	120	56	60	330
Total liabilities	16,244	11,246	11,047	165,242	203,779
Contractual commitments [3]					
Contractual loan, equity and real estate	420	310	138	100	968
Operating leases	88	146	93	196	523
Total contractual commitments	508	456	231	296	1,491

December 31, 2009 ($ millions)	Within 1 year	1 year to 3 years	3 years to 5 years	Over 5 years	Total
General fund policy liabilities [1]	12,365	11,504	11,543	161,351	196,763
Senior debentures and unsecured financing [2]	233	459	459	9,654	10,805
Subordinated debt [2]	191	383	383	4,553	5,510
Bond repurchase agreements	1,266	–	–	–	1,266
Accounts payable and accrued expenses	1,927	–	–	–	1,927
Borrowed funds [2]	98	142	83	62	385
Total liabilities	16,080	12,488	12,468	175,620	216,656
Contractual commitments: [3]					
Contractual loan, equity and real estate	419	197	119	69	804
Operating leases	90	138	65	39	332
Total contractual commitments	509	335	184	108	1,136

[1] General fund policyholder liability cash flows include estimates related to the timing and payment of death and disability claims, policy maturities, annuity payments, minimum guarantees on segregated fund products, policyholder dividends, amounts on deposits, 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 policyholder liabilities. These amounts are undiscounted and do not reflect recoveries from reinsurance agreements. The actuarial and other policy liability amounts included in SLF Inc.'s 2010 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.

[2] Payments due based on maturity dates and includes expected interest payments. Actual redemption of certain securities may occur sooner as some include an option for the issuer to call the security at an earlier date.

[3] Contractual commitments and operating lease commitments are not reported on the Consolidated Balance Sheets.

Strategic Risk

Risk Description

Strategic risk is the risk to future earnings and capital arising from structural or other large changes in the competitive, economic, legal or political environment, changing customer behaviour, or a failure to achieve our strategic or long-term business plans, either through incorrect choices or improper implementation of those choices.

Strategic Risk Management Governance and Control

The strategic risks for each of our Business Groups and for the Company as a whole are developed as part of the annual risk identification process through which we develop and maintain a register of enterprise key risks. These risks are then included as one of the key inputs into the development of the strategic plans as part of our integrated planning process. Our business plans, which include the business initiatives to achieve our plan objectives, are then developed from these strategic plans.

Strategic risk is managed through our formal strategic and business planning process. Our strategic plans are reviewed and discussed by our Executive Team and then the key themes, issues and risks emerging are discussed by the Board of Directors. Our business plans are subject to approval by the Board of Directors, which also receive regular reviews of implementation progress against key business plan objectives. Appropriate Board committees receive regular updates of the enterprise key risks.

Merger and acquisition transactions are governed by a Board-approved risk management policy and significant transactions require the approval of the Board of Directors.

Capital and Liquidity Management

Our asset-liability management practices allow us to maintain a strong financial position by ensuring that sufficient liquid assets are available to cover our potential funding requirements. We invest in various types of assets with a view to matching them with its liabilities of various durations.

The regulatory environments in which we operate are expected to evolve as governments and regulators work to develop the appropriate level of financial regulation required to ensure that capital, liquidity and risk management practices are sufficient to withstand severe economic downturns. In Canada, OSFI is considering a number of changes to the insurance company capital rules, including new guidelines that would establish stand-alone capital adequacy requirements for operating life insurance companies, such as Sun Life Assurance, and that would update OSFI's regulatory guidance for non-operating insurance companies acting as holding companies, such as SLF Inc. OSFI is also reviewing the use of internally modelled capital requirements for variable annuity and segregated fund guarantees. In addition, it is expected that OSFI may align some insurance regulations with those that emerge for banks under the proposed new Basel Capital Accord. The outcome of these initiatives is uncertain and may impact our position relative to that of other Canadian and international financial institutions with which we compete for business and capital.

Principal Sources of Funds

Our 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. We also raise funds from time to time, through borrowing and issuing of securities, to finance growth, acquisitions or other needs.

As at December 31, 2010, we maintained cash, cash equivalents and short-term securities totalling $8.5 billion, of which 2% were held in relation to certain derivative strategies and bond repurchase agreements. In addition to providing for near-term funding commitments, cash, cash equivalents and short-term securities include amounts that support short-term liabilities.

Net cash, cash equivalents and short-term securities decreased by $3.4 billion in 2010. Cash flows generated by operating activities decreased by $684 million in 2010 from 2009 mainly from lower premiums of $2.0 billion, partly offset by increased fee income, lower policyholder payments and a lower level of current income taxes. Financing activities used $591 million of cash in 2010 and provided $1.1 billion in 2009. The decrease was mainly due to higher levels of debt and preferred shares issued during 2009 and redemption of subordinated debt for $300 million in 2010, partially offset by a lower level of common share dividends paid in cash due to a change in timing of dividend payouts and a higher participation rate in the dividend reinvestment plan. Investing activities decreased cash by $4.4 billion during 2010 compared to $3.5 billion in 2009. The increased investing activities arose mainly from higher levels of investment in long-term securities. The strengthening of the Canadian dollar against the U.S. dollar decreased cash balances by $85 million in 2010 compared to a decrease of $802 million in 2009.

($ millions)	**2010**	2009	2008
Net cash provided by operating activities	**2,864**	3,548	1,737
Net cash provided by (used in) financing activities	**(591)**	1,052	(499)
Net cash provided by (used in) investing activities	**(4,444)**	(3,451)	35
Changes due to fluctuations in exchange rates	**(85)**	(802)	642
Increase (decrease) in cash and cash equivalents	**(2,256)**	347	1,915
Cash and cash equivalents, beginning of year	**5,865**	5,518	3,603
Cash and cash equivalents, end of year	**3,609**	5,865	5,518
Short-term securities, end of year	**4,878**	6,003	3,361
Cash, cash equivalents and short-term securities, end of year	**8,487**	11,868	8,879

Liquidity

The shaded text in the following section of this MD&A represent our disclosures on liquidity and funding risk in accordance with CICA Handbook Section 3862, *Financial Instruments – Disclosures,* and includes discussion on how we measure our risk and our objectives, policies and methodologies for managing this risk. Therefore, this shaded text represents an integral part of our audited 2010 Annual Consolidated Financial Statements for the years ended December 31, 2010, and December 31, 2009. The shading in this section does not imply that these disclosures are of any greater importance than non-shaded text, and the Capital and Liquidity Management disclosure should be read in its entirety.

We generally maintain an overall asset liquidity profile that exceeds requirements to fund potential demand liabilities under prescribed adverse liability demand scenarios. To strengthen our liquidity further, we actively manage and monitor our:

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

We are subject to various regulations in the jurisdictions in which we operate. 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 appropriately funded and maintain adequate liquidity to meet obligations, both individually and in aggregate.

We maintain various credit facilities for general corporate purposes. As at December 31, 2010, we had two U.S. dollar denominated committed credit facilities totalling US$1.5 billion, of which US$519 million was utilized. In addition, we had uncommitted credit facilities (denominated in Canadian dollars) totalling $185 million, of which $60 million was utilized. As at December 31, 2009, we had three committed credit facilities totalling US$1.7 billion, of which US$596 million was utilized, and uncommitted credit facilities for $185 million, of which $76 million was utilized. All utilization of these facilities was in respect of letters of credit. As at December 31, 2010, the maturity of these credit facilities ranged from one and a half to two years.

The agreements relating to our committed credit facilities contain typical covenants for investment grade companies regarding solvency, credit ratings and financial strength, all of which were met as at December 31, 2010. These covenants include but are not limited to the maintenance of total equity by SLF Inc. of at least $12 billion, tested as of the last day of each fiscal quarter. SLF Inc.'s total equity was $18.4 billion as at December 31, 2010.

Our failure to comply with the covenants under the committed credit facilities would, subject to grace periods in the case of certain covenants, result in an event of default. This could require us to repay any outstanding borrowings or to cash collateralize letters of credit under such facility. A failure by SLF Inc. (or any of its subsidiaries) to pay an obligation due for an amount exceeding $250 million would also result in an event of default under the committed credit facilities described above.

Based on our historical cash flows, and liquidity management processes, we believe that the cash flow from our operating activities will continue to provide sufficient liquidity for us to satisfy debt service obligations and to pay other expenses as they fall due.

Capital

We have a capital risk policy designed to maintain a strong capital position and to provide the flexibility necessary to take advantage of growth opportunities, to support the risk associated with its businesses and optimize shareholder return. Our capital risk policy is also intended to provide an appropriate level of risk management over capital adequacy risk, which is defined as the risk that capital is not or will not be sufficient to withstand adverse economic conditions, to maintain financial strength or to allow the Company and its subsidiaries to take advantage of opportunities for expansion. Our capital base is structured to exceed regulatory and internal capital targets and maintain strong credit ratings, while maintaining a capital-efficient structure and desired capital ratios. Capital is managed both on a consolidated basis under principles that consider all the risks associated with the business as well as at the business group level under the principles appropriate to the jurisdictions in which we operate. We manage capital for all of our subsidiaries in a manner commensurate with their individual risk profiles.

Sun Life Financial, including all of its business groups, engages in a capital planning process annually in which capital options, fundraising alternatives and dividend policies are presented to the Risk Review Committee of the Board. Capital reviews are regularly conducted which consider the potential impacts under various business, interest rate and equity market scenarios. Relevant components of the capital reviews are presented to the Risk Review Committee of the Board on a quarterly basis. The Board of Directors is responsible for the annual review and approval of our capital plan.

The Company's capital risk policy establishes policies, operating guidelines and procedures that govern the management of capital. The Risk Review Committee of the Board reviews and approves SLF Inc.'s capital risk policy annually. Our Corporate Treasury and Risk Management functions are responsible for the design and implementation of the capital risk policy.

The Company's capital base consists mainly of common shareholders' equity and retained earnings. Other sources of capital include preferred shareholders' equity and subordinated debt issued by SLF Inc., Sun Life Assurance and Sun Canada Financial Co. For Canadian regulatory purposes, our capital also includes innovative capital instruments issued by Sun Life Capital Trust and Sun Life Capital Trust II.

Notes 10, 11, 13 and 15 to our 2010 Consolidated Financial Statements include additional details on our capital. The following table summarizes the sources of our capital and capital position over the past three years.

Source of Capital

($ millions)	**2010**	2009	2008
Subordinated debt	**2,741**	3,048	2,576
Trust Securities[1]	**1,644**	1,644	1,150
Equity			
Participating policyholders' equity	**114**	107	106
Preferred shareholders' equity	**2,015**	1,741	1,495
Common shareholders' equity[2]	**16,230**	15,489	15,731
Total Equity	**18,359**	17,337	17,332
Total Capital	**22,744**	22,029	21,058
Ratio of debt to total capital[3]	**19.3%**	21.3%	17.7%
Ratio of debt plus preferred shares to total capital[3]	**28.1%**	29.2%	24.8%

(1) SLEECS net of associated transaction costs.
(2) Unrealized gain and losses on cash flow hedges and AFS debt securities are excluded from regulatory capital.
(3) Debt includes all short-term and long-term obligations. Total capital includes debt, preferred shares and common stock.

Common shareholders' equity was $16.2 billion, as at December 31, 2010, compared with $15.5 billion as at December 31, 2009, an increase of $0.7 billion reflecting stronger income from improved equity and credit markets.

On May 25, 2010, SLF Inc. issued $280 million of 4.35% Class A Non-Cumulative 5-Year Rate Reset Preferred Shares Series 8R (Series 8R Shares) yielding 4.35% annually until June 30, 2015. On June 30, 2015, and every five years thereafter, the annual dividend rate will reset to an annual rate equal to the 5-year Government of Canada bond yield plus 1.41%. Holders of the Series 8R Shares will have the right, at their option, to convert their Series 8R Shares into Class A Non-Cumulative Floating Rate Preferred Shares Series 9QR (Series 9QR Shares) on June 30, 2015 and on June 30 every five years thereafter. Holders of Series 9QR Shares will be entitled to receive fixed non-cumulative quarterly dividends at an annual rate equal to the then 3-month Government of Canada Treasury bill yield plus 1.41%.

On October 12, 2010, Sun Life Assurance redeemed all the outstanding $300 million principal amount of 6.65% Subordinated Debentures, Series 3, due October 12, 2015.

As at December 31, 2010, our debt capital consisted of $2.7 billion in subordinated debentures with maturity dates between 2015 and 2052 and $1.6 billion of SLEECS with maturity dates between 2031 and 2108. The maturity dates of our long-term debt are well distributed over the medium- to long-term horizon to maximize our financial flexibility and to minimize refinancing requirements within a given year. The table below provides the first call and maturity dates for our subordinated debt, SLEECS and preferred shares.

We strive 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 purposes of this calculation declined to 28.1% as at December 31, 2010, compared with 29.2% as at December 31, 2009.

Description	Interest Rate	Earliest Par Call Date/Redemption Date[1]	Maturity	Principal/Face Amount ($ millions)
Subordinated Debt Issued by Sun Life Assurance				
6.30% Debentures, Series 2	6.30%	n/a	2028	150
6.15% Debentures	6.15%	June 30, 2012	2022	800
Subordinated Debt Issued by SLF Inc.				
Series 2007-1	5.40%	May 29, 2037	2042	400
Series 2008-1	5.59%	January 30, 2018	2023	400
Series 2008-2	5.12%	June 26, 2013	2018	350
Series 2009-1	7.90%	March 31, 2014	2019	500
Subordinated Debt Issued by Sun Canada Financial Co.				
7.25% Subordinated Notes (US denominated)	7.25%	n/a	2015	150
Trust Units Issued by Sun Life Capital Trust				
SLEECS – Series A	6.865%	December 31, 2011	2031	950
SLEECS – Series B	7.093%	June 30, 2032	2052	200
Debt Securities Issued by Sun Life Capital Trust II				
SLEECS – Series 2009-1	5.863%	December 31, 2019	2108	500
Class A Preferred Shares Issued by SLF Inc.				
Series 1	4.75%	March 31, 2010	Perpetual	400
Series 2	4.80%	September 30, 2010	Perpetual	325
Series 3	4.45%	March 31, 2011	Perpetual	250
Series 4	4.45%	December 31, 2011	Perpetual	300
Series 5	4.50%	March 31, 2012	Perpetual	250
Series 6R[2]	6.00%	June 30, 2014	Perpetual	250
Series 8R[3]	4.35%	June 30, 2015	Perpetual	280

(1) The earliest date on which the Company has the option, but not the obligation, to call securities for redemption at their par value.

(2) On June 30, 2014, and every five years thereafter, the annual dividend rate will reset to an annual rate equal to the 5-year Government of Canada bond yield plus 3.79%. Holders of the Series 6R Shares will have the right, at their option, to convert their Series 6R Shares into Class A Non-Cumulative Floating Rate Preferred Shares Series 7QR (Series 7QR Shares) on June 30, 2014 and every five years thereafter. Holders of Series 7QR Shares will be entitled to receive fixed non-cumulative quarterly dividends at an annual rate equal to the then 3-month Government of Canada treasury bill yield plus 3.79%.

(3) On June 30, 2015, and every five years thereafter, the annual dividend rate will reset to an annual rate equal to the 5-year Government of Canada bond yield plus 1.41%. Holders of the Series 8R Shares will have the right, at their option, to convert their Series 8R Shares into Class A Non-Cumulative Floating Rate Preferred Shares Series 9QR (Series 9QR Shares) on June 30, 2015 and every five years thereafter. Holders of Series 9QR Shares will be entitled to receive fixed non-cumulative quarterly dividends at an annual rate equal to the then 3-month Government of Canada treasury bill yield plus 1.41%.

In addition to the above long-term debt, we have issued $2.2 billion of senior debentures and $1.4 billion of senior financings in connection with financing arrangements to address U.S. statutory reserve requirements for certain universal life contracts.

The following table shows the number of common shares and stock options outstanding of SLF Inc. for the last three years.

Number of Common Shares Outstanding

(in millions)	2010	2009	2008
Balance, beginning of year	564.4	559.7	564.1
Stock options exercised	9.9	4.7	0.4
Shares repurchased	–	–	(4.8)
Balance, end of year	574.3	564.4	559.7

Number of Stock Options Outstanding

(in millions)	2010	2009	2008
Balance, beginning of year	13.2	10.0	8.2
Options issued	2.8	4.3	2.3
Options exercised or cancelled	(1.8)	(1.1)	(0.5)
Balance, end of year	14.2	13.2	10.0

In 2010, we did not repurchase or cancel any of our common shares.

The Company grants stock options to certain employees and directors. These options are granted at the closing price of SLF Inc.'s common shares on the TSX on the grant date for stock options granted after January 1, 2007, and the closing price of the trading day preceding the grant date for stock options granted before January 1, 2007. As at February 10, 2011, 13.9 million options to acquire SLF Inc. common shares and 574.4 million common shares of SLF Inc. were outstanding.

Shareholder Dividends

The declaration, amount and payment of dividends by SLF Inc. is subject to the approval of our Board of Directors and is dependent on our results of operations, financial condition, cash requirements, regulatory and contractual restrictions and other factors considered by the Board of Directors. The Board of Directors reviews the level of dividends on a quarterly basis.

SLF Inc. maintained its quarterly common shareholders' dividend at $0.36 per share throughout 2010. Total common shareholder dividends declared in 2010 were $1.44 per share, consistent with 2009 levels.

Dividends Declared in 2010

		Amount per share
Common shares		$ 1.44
Class A preferred shares	**Coupon rate**	**Amount per share**
Series 1	4.75%	$ 1.187500
Series 2	4.80%	$ 1.200000
Series 3	4.45%	$ 1.112500
Series 4	4.45%	$ 1.112500
Series 5	4.50%	$ 1.125000
Series 6R	6.00%	$ 1.500000
Series 8R	4.35%	$ 0.653200

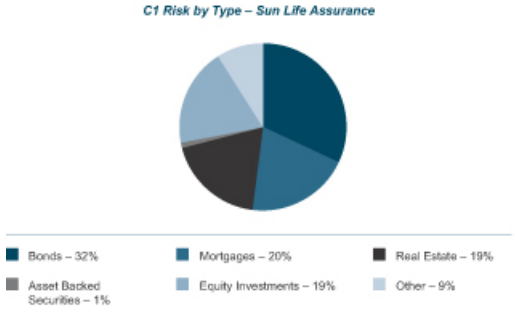
Under our Canadian Dividend Reinvestment and Share Purchase Plan (the "Plan"), Canadian-resident common and preferred shareholders may choose to have their dividends automatically reinvested in additional common shares and may also purchase common shares through the Plan. For dividend reinvestments, we may, at our option, issue common shares from treasury at a discount of up to 5% to the volume weighted average trading price or direct that common shares be purchased on behalf of participants through the TSX at the market price. Common shares acquired by participants through optional cash purchases may also be issued from treasury or purchased through the TSX at SLF Inc.'s option, in either case at no discount.

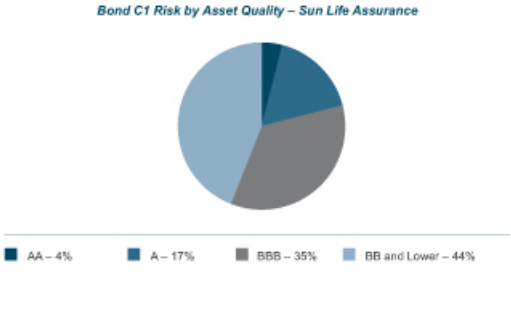
Capital Adequacy

SLF Inc. is subject to the guidelines regarding capital for regulated insurance holding companies and non-operating life insurance companies (collectively, Insurance Holding Companies) issued by OSFI. 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 or the risk profile of Canadian life insurers changes or to reflect other risks OSFI deems necessary. SLF Inc. was well above its minimum internal targets as at December 31, 2010.

Sun Life Assurance is subject to the MCCSR capital rules for a life insurance company in Canada. The Company generally expects to maintain an MCCSR ratio for Sun Life Assurance at or above 200%. From time to time, during adverse economic conditions and periods of high market volatility, Sun Life Assurance may maintain an MCCSR ratio in the range of 180% – 200%. With an MCCSR ratio of 228%, Sun Life Assurance exceeded minimum regulatory levels as at December 31, 2010. The MCCSR calculation involves using qualifying models or applying quantitative factors to specific assets and liabilities based on a number of risk components to arrive at required capital and comparing this requirement to available capital to assess capital adequacy. Certain of these risk components, along with available capital, are sensitive to changes in equity markets and interest rates as outlined in the Risk Management section of this document.

A key risk component is asset default risk, also referred to as C-1 risk, which covers losses resulting from asset defaults, loss of market value of equities, and related reductions in income. To compute the C-1 component, factors are applied to the balance sheet value of our assets (on-balance sheet) or exposure amount (off-balance sheet). The factors used to compute required capital are based on the nature of the asset in combination with its use or the rating assigned to the asset or obligor. The charts below summarize the split of the Sun Life Assurance's C-1 risk by type of asset. In addition, a second chart splits the C-1 risk associated with the bond portfolio by rating. While over 70% of Sun Life Assurance's bonds are rated A or higher, such bonds account for just over 20% of C-1 risk reflecting the relatively low factors attributed to bonds rated A or higher. Bonds rated A or higher also include the obligations of certain qualifying entities, including the Canadian government and other OECD countries, that are eligible for a 0% factor.





The following table shows the components of Sun Life Assurance's MCCSR ratio for the last three years.

Sun Life Assurance MCCSR

($ millions)	**2010**	2009	2008
Capital available			
Retained earnings and contributed surplus	**10,079**	9,733	10,117
Other comprehensive income	**(1,752)**	(1,510)	(841)
Common and preferred shares	**2,996**	2,596	1,996
Innovative instruments and subordinated debt	**2,794**	3,094	2,600
Other	**247**	269	219
Less:			
Goodwill and intangibles in excess of limit	**1,777**	1,859	1,893
Non-life investments and other	**1,696**	1,660	1,585
Total capital available	**10,891**	10,663	10,613
Required capital			
Asset default and market risks	**2,967**	2,699	2,620
Insurance risks	**1,046**	1,397	1,279
Interest rate risks	**765**	735	683
Total capital required	**4,778**	4,831	4,582
MCCSR ratio	**228%**	221%	232%

Sun Life Assurance's MCCSR ratio increased from 221% as at December 31, 2009, to 228% as at December 31, 2010. The MCCSR ratio was favourably impacted by 14 points by the sale of the Company's life reinsurance business and by 12 points from an external reinsurance agreement in SLF Canada's Group Benefits operation. This was partially offset by a 6 point reduction from the redemption of $300 million 6.65% Debentures, Series 3, along with unfavourable impacts from 2010 MCCSR guideline changes, lower interest rates and business growth. Available capital remained relatively flat as increased earnings and the issuance of $280 million of preferred shares were substantively offset by the unfavourable impact of the strengthening of the Canadian dollar relative to foreign currencies, the redemption of $300 million subordinated debt and dividends paid to SLF Inc. Additional details concerning the calculation of available capital and MCCSR are included in SLF Inc.'s 2010 AIF under the heading Regulatory Matters.

Sun Life Financial adopted International Financial Reporting Standards as of January 1, 2011. The adoption of IFRS will impact the level of available regulatory capital. The net impact to retained earnings from conversion to IFRS is recognized in available capital. OSFI's Advisory on *Conversion to International Financial Reporting Standards by Federally Regulated Entities* allows companies to elect to phase-in the impact on adjusted net Tier 1 capital on a straight-line basis over eight quarters ending December 31, 2012. The impact of IFRS conversion on Sun Life Assurance's MCCSR ratio, in the initial reporting period, is not expected to be material as we have elected the phase-in provision.

In December 2010, OSFI issued revised guidelines for segregated fund capital requirements for business written on or after January 1, 2011. The existing capital requirements will continue to apply to business written prior to January 1, 2011, until a new approach is developed. OSFI expects the review of the new approach to take several years, likely into 2013. It is premature to draw conclusions about the impact this process will have on capital requirements for Canadian life insurance companies.

Significant foreign life subsidiaries that are not subject to the MCCSR rules are required to comply with the capital adequacy requirements imposed in the foreign jurisdictions in which they operate. Our principal operating life insurance subsidiary in the United States, Sun Life (U.S.), is subject to the risk-based capital ("RBC") rules issued by the National Association of Insurance Commissioners, which measures the ratio of the company's total adjusted capital to the minimum capital required by the RBC formula. The RBC formula for life insurance companies' measures exposures to investment risk, insurance risk, interest rate and other market risks and general business risk. A company's RBC is normally expressed in terms of the company action level ("CAL"). If a life insurance company's total adjusted capital is less than or equal to the CAL (100% of CAL or less), a comprehensive financial plan must be submitted to its state regulator. Sun Life (U.S.) has established an internal target range for its RBC ratio of 300% – 350% of the CAL.

The investment, interest rate and market risk components of Sun Life (U.S.)'s statutory and risk based capital are sensitive to equity and interest rate levels as well as the overall economic environment. Declining interest rates and unfavourable credit experience, coupled with changes in equity markets, will negatively impact its RBC ratio. The insurance and business risk components of Sun Life (U.S.)'s statutory and risk based capital are sensitive to policyholder experience. Unfavourable experience could also negatively impact the RBC ratio.

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 maintained capital levels above the minimum local regulatory requirements as at December 31, 2010.

Financial Strength Ratings

Independent rating agencies assign credit ratings to securities issued by companies, as well as financial strength ratings. The credit ratings assigned to the securities issued by SLF Inc. and its subsidiaries are described in SLF Inc.'s 2010 AIF under the heading Security Ratings.

The financial strength ratings assigned are intended to provide an independent view of the creditworthiness and financial strength of an organization. Each rating agency has developed its own methodology for the assessment and subsequent rating of life insurance companies. The following table summarizes the financial strength ratings/claims paying ability for the two main operating subsidiaries of SLF Inc. as at December 31, 2010.

	Standard & Poor's	Moody's	AM Best	DBRS
Sun Life Assurance Company of Canada	AA-	Aa3	A+	IC-1
Sun Life Assurance Company of Canada (U.S.)	AA-	Aa3	A+	

During 2010, Standard & Poor's lowered its rating of Sun Life Assurance and Sun Life (U.S.) to AA- from AA. In doing so, Standard & Poor's removed its negative outlook on these subsidiaries and replaced it with a stable outlook. All of the rating agencies listed in the table above have a stable outlook on the financial strength ratings of the operating companies above, with the exception of Moody's which has a negative outlook on Sun Life (U.S.).

Off-Balance Sheet Arrangements

In the normal course of business, we are 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
- reduce financing costs

While most of these activities are reflected on our balance sheet with respect to assets and liabilities, certain of them are either not recorded or are recorded on the balance sheet in amounts that differ from the full contract or notional amounts. The types of off-balance sheet activities we undertake primarily include:
- asset securitizations
- securities lending

Asset Securitizations

We engage in asset securitization activities primarily to earn origination or management fees by leveraging our investment expertise to source and manage assets for the investors. In the past, we have sold mortgage or bond assets to a non-consolidated 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, we may subscribe to a subordinated investment interest in the issued securities.

($ millions)	2010	2009
As at December 31		
Securitized assets under management	1,252	1,882
The Company's retained interest	27	35
For the year ended December 31		
Cash flow received on retained interests and servicing fees	8	11

We are generally retained to manage the assets in the SPE on a fee-for-service basis. All of the asset securitization transactions we undertake are structured on a non-recourse basis so that we have no exposure to the default risks associated with the assets in the SPEs other than through any of our retained interests. The table summarizes our asset securitization program.

Securities Lending

We lend securities in our investment portfolio to other institutions for short periods to generate additional fee income. We conduct our program only with well-established, reputable banking institutions that carry a minimum credit rating of "AA". We monitor the fair value of the loaned securities on a daily basis with additional collateral obtained or refunded as the fair value fluctuates. It is our practice to obtain a guarantee from the lending agent against counterparty default, including non-cash collateral deficiency, in securities lending transactions. Additional information on securities lending is available in Note 5 to our 2010 Consolidated Financial Statements.

Commitments, Guarantees, Contingencies and Reinsurance Matters

In the normal course of business, we enter into leasing agreements, outsourcing arrangements and agreements involving indemnities to third parties. We are 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 our commitments, guarantees and contingencies are summarized in Notes 6 and 21 to our 2010 Consolidated Financial Statements. A table summarizing our financial liabilities and contractual obligations can be found in the Risk Management section of this document under the heading Operational Risk.

Legal and Regulatory Proceedings

SLF Inc. and its subsidiaries are regularly involved in legal actions, both as a defendant and as a plaintiff. In addition, government and regulatory bodies in Canada, the United States, the United Kingdom and Asia, including federal, provincial and state, securities and insurance regulators in Canada, the United States and other jurisdictions, the SEC, the United States Financial Industry Regulatory Authority and state attorney generals in the United States, from time to time, make inquiries and require the production of information or conduct examinations or investigations concerning compliance by SLF Inc. and its subsidiaries with insurance, securities and other laws. Management does not believe that the conclusion of any current legal or regulatory matters, either individually or in the aggregate, will have a material adverse effect on the Company's financial condition or results of operations.

EXHIBIT 2

Consolidated Financial Statements And Notes

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77 *Consolidated Financial Statements*

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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 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 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.

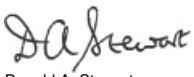
Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting, as of December 31, 2010, based on the framework and criteria established in *Internal Control—Integrated Framework,* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management has concluded that internal control over financial reporting was effective as of December 31, 2010.

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

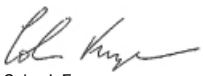
The Office of the Superintendent of Financial Institutions, Canada conducts periodic examinations of the Company. These examinations are designed to evaluate compliance with provisions of the Insurance Companies Act of Canada and to ensure that the interests of policyholders, depositors and the public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

The Appointed Actuary, who is a member of management, is appointed by the Board to discharge the various actuarial responsibilities required under the Insurance Companies Act of Canada, and conducts the valuation of the Company's actuarial liabilities. The role of the Appointed Actuary is described in more detail in Note 9. The report of the Appointed Actuary accompanies these consolidated financial statements.

The Company's external auditors, Deloitte & Touche LLP, Independent Registered Chartered Accountants, have audited the Company's internal control over financial reporting as of December 31, 2010 in addition to auditing the Company's Consolidated Financial Statements for the year ended December 31, 2010. Their reports to the Board and Shareholders express an unqualified opinion and accompany these consolidated financial statements. Deloitte & Touche meet separately with both management and the Audit Committee to discuss the results of their audit.



Donald A. Stewart
Chief Executive Officer



Colm J. Freyne
Executive Vice-President and Chief Financial Officer

Toronto, February 16, 2011

Consolidated Statements Of Operations

YEARS ENDED DECEMBER 31 (in millions of Canadian dollars, except for per share amounts)	2010	2009	2008
REVENUE			
Premium income:			
Annuities	$ 2,836	$ 4,795	$ 3,592
Life insurance	6,255	6,380	5,928
Health insurance	4,407	4,335	4,067
	13,498	15,510	13,587
Net investment income (loss) *(Note 5)*:			
Change in fair value of held-for-trading assets	2,761	4,878	(7,399)
Income (loss) from derivative investments	(126)	(943)	(220)
Net gains (losses) on available-for-sale assets	119	(5)	(241)
Other net investment income (loss)	5,245	5,462	6,078
Gain (loss) on sale of equity investment *(Note 3)*	–	–	1,015
	7,999	9,392	(767)
Fee income	3,143	2,670	2,743
	24,640	27,572	15,563
POLICY BENEFITS AND EXPENSES			
Payments to policyholders, beneficiaries and depositors:			
Maturities and surrenders	4,726	4,566	5,310
Annuity payments	1,334	1,367	1,380
Death and disability benefits	2,656	2,997	2,844
Health benefits	3,235	3,210	2,938
Policyholder dividends and interest on claims and deposits	1,127	1,317	1,303
	13,078	13,457	13,775
Net transfers to (from) segregated funds	921	860	539
Increase (decrease) in actuarial liabilities *(Note 9)*	2,909	7,697	(4,429)
Commissions	1,591	1,662	1,545
Operating expenses *(Note 16)*	3,404	3,176	3,003
Premium taxes	218	222	227
Interest expense *(Notes 11, 12 and 13)*	440	403	366
	22,561	27,477	15,026
INCOME (LOSS) BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	2,079	95	537
Income taxes expense (benefit) *(Note 19)*	371	(542)	(343)
Non-controlling interests in net income (loss) of subsidiaries *(Note 14)*	23	15	23
TOTAL NET INCOME (LOSS)	1,685	622	857
Less: Participating policyholders' net income (loss)	9	9	2
SHAREHOLDERS' NET INCOME (LOSS)	1,676	613	855
Less: Preferred shareholder dividends	93	79	70
COMMON SHAREHOLDERS' NET INCOME (LOSS)	$ 1,583	$ 534	$ 785
Average exchange rates:			
U.S. dollars	*1.03*	1.14	1.07
U.K. pounds	*1.59*	1.78	1.96
Earnings per share			
Basic	$ 2.79	$ 0.95	$ 1.40
Diluted	$ 2.76	$ 0.94	$ 1.37
Weighted average shares outstanding in millions *(Note 17)*			
Basic	568	561	561
Diluted	570	562	562

The attached notes form part of these Consolidated Financial Statements.

Consolidated Balance Sheets

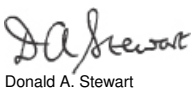
AS AT DECEMBER 31 (in millions of Canadian dollars)	2010	2009[1]
ASSETS		
Bonds – held-for-trading *(Note 6)*	$ 54,753	$ 51,634
Bonds – available-for-sale *(Note 6)*	10,752	9,673
Mortgages and corporate loans *(Note 6)*	19,511	19,449
Stocks – held-for-trading *(Note 6)*	4,424	4,331
Stocks – available-for-sale *(Note 6)*	808	635
Real estate *(Note 5)*	4,919	4,877
Cash, cash equivalents and short-term securities	8,487	11,868
Derivative assets *(Notes 5 and 6)*	1,629	1,382
Policy loans and other invested assets	3,525	3,503
Other invested assets – held-for-trading *(Note 6)*	419	425
Other invested assets – available-for-sale *(Note 6)*	454	452
Invested assets	109,681	108,229
Goodwill *(Note 7)*	5,978	6,419
Intangible assets *(Note 7)*	898	926
Other assets *(Note 8)*	4,302	4,517
Total general fund assets	$ 120,859	$ 120,091
Segregated funds net assets	$ 88,911	$ 81,305
LIABILITIES AND EQUITY		
Actuarial liabilities and other policy liabilities *(Note 9)*	$ 84,363	$ 84,758
Amounts on deposit	4,450	4,181
Deferred net realized gains *(Note 5)*	219	225
Senior debentures *(Note 11)*	3,811	3,811
Derivative liabilities *(Notes 5 and 6)*	700	1,257
Other liabilities *(Note 12)*	6,162	5,432
Total general fund liabilities	99,705	99,664
Subordinated debt *(Note 13)*	2,741	3,048
Non-controlling interests in subsidiaries *(Note 14)*	54	42
Total equity	18,359	17,337
Total general fund liabilities and equity	$ 120,859	$ 120,091
Segregated funds contract liabilities	$ 88,911	$ 81,305

[1] Opening retained earnings as at January 1, 2008 have been restated. Refer to Note 2.

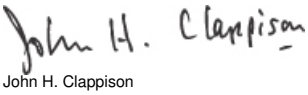
Exchange rate at balance sheet date:		
U.S. dollars	1.00	1.05
U.K. pounds	1.55	1.70

The attached notes form part of these Consolidated Financial Statements.

Approved on behalf of the Board of Directors,



Donald A. Stewart
Chief Executive Officer



John H. Clappison
Director

Consolidated Statements Of Equity

Years ended December 31 (in millions of Canadian dollars)	PARTICIPATING POLICYHOLDERS	SHAREHOLDERS	2010	2009	2008
PREFERRED SHARES					
Balance, beginning of year	$ –	$ 1,741	$ 1,741	$ 1,495	$ 1,495
Preferred shares issued *(Note 15)*	–	280	280	250	–
Issuance costs, net of taxes *(Note 15)*	–	(6)	(6)	(4)	–
Balance, end of year	–	2,015	2,015	1,741	1,495
COMMON SHARES					
Balance, beginning of year	–	7,126	7,126	6,983	7,033
Stock options exercised *(Note 18)*	–	18	18	7	10
Shares issued under dividend reinvestment and share purchase plan *(Note 15)*	–	263	263	136	–
Common shares purchased for cancellation *(Note 15)*	–	–	–	–	(60)
Balance, end of year	–	7,407	7,407	7,126	6,983
CONTRIBUTED SURPLUS					
Balance, beginning of year	–	133	133	118	62
Stock-based compensation *(Note 18)*	–	19	19	16	58
Stock options exercised *(Notes 15 and 18)*	–	(3)	(3)	(1)	(2)
Balance, end of year	–	149	149	133	118
RETAINED EARNINGS					
Balance, beginning of year, as previously reported	120	10,762	10,882	11,135	11,391
Accounting adjustments for error *(Note 2)*	–	–	–	–	(77)
Balance, beginning of year, after adjustments	120	10,762	10,882	11,135	11,314
Net income (loss)	9	1,676	1,685	622	857
Dividends on common shares	–	(811)	(811)	(796)	(809)
Dividends on preferred shares	–	(93)	(93)	(79)	(70)
Common shares purchased for cancellation *(Note 15)*	–	–	–	–	(157)
Balance, end of year	129	11,534	11,663	10,882	11,135
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), net of taxes					
Balance, beginning of year	(13)	(2,532)	(2,545)	(2,399)	(2,764)
Total other comprehensive income (loss)	(2)	(328)	(330)	(146)	365
Balance, end of year	(15)	(2,860)	(2,875)	(2,545)	(2,399)
Total retained earnings and accumulated other comprehensive income (loss)	114	8,674	8,788	8,337	8,736
Total equity	$ 114	$18,245	$18,359	$17,337	$17,332
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), net of taxes					
Balance, end of year, consists of:					
Unrealized gains (losses) on available-for-sale assets	$ –	$ 324	$ 324	$ 30	$ (1,429)
Unrealized foreign currency translation gains (losses), net of hedging activities	(15)	(3,229)	(3,244)	(2,637)	(1,049)
Unrealized gains (losses) on derivatives designated as cash flow hedges	–	45	45	62	79
Balance, end of year	$ (15)	$ (2,860)	$ (2,875)	$ (2,545)	$ (2,399)

Consolidated Statements Of Comprehensive Income

Years ended December 31 (in millions of Canadian dollars)	2010	2009	2008
Total net income (loss)	$ 1,685	$ 622	$ 857
Other comprehensive income (loss), net of taxes *(Note 20)*:			
Unrealized foreign currency translation gains (losses), excluding hedges	(694)	(1,908)	2,162
Unrealized foreign currency gains (losses), net investment hedges	92	314	(396)
Net adjustment for foreign exchange losses (gains) *(Note 23)*	(5)	6	6
Unrealized gains (losses) on available-for-sale assets	388	1,492	(1,653)
Reclassifications to net income (loss) for available-for-sale assets	(94)	(33)	199
Unrealized gains (losses) on cash flow hedging instruments	(13)	(18)	24
Reclassifications to net income (loss) for cash flow hedges	(4)	1	23
Total other comprehensive income (loss)	(330)	(146)	365
Total comprehensive income (loss)	1,355	476	1,222
Less: Participating policyholders' net income (loss)	9	9	2
Participating policyholders' foreign currency translation gains (losses), excluding hedges	(2)	(8)	9
Shareholders' comprehensive income (loss)	$ 1,348	$ 475	$ 1,211

The attached notes form part of these Consolidated Financial Statements.

Consolidated Statements of Cash Flows

YEARS ENDED DECEMBER 31 (in millions of Canadian dollars)	2010	2009	2008
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Total net income (loss)	$ 1,685	$ 622	$ 857
Items not affecting cash:			
Increase (decrease) in actuarial and other policy-related liabilities	2,822	7,707	(4,392)
Unrealized (gains) losses on held-for-trading assets and derivatives	(3,041)	(4,644)	7,383
Amortization of:			
Net deferred realized and unrealized gains on investments	(33)	(76)	(136)
Deferred acquisition costs and intangible assets	93	82	74
(Gain) loss on foreign exchange *(Note 5)*	–	10	22
Future income taxes	277	(737)	(489)
Provisions for losses (recoveries) on investments	115	117	4
Stock-based compensation *(Note 18)*	126	96	31
Accrued expenses and taxes	177	86	(424)
Investment income due and accrued	13	26	6
Other changes in other assets and liabilities	457	(276)	(560)
Gain on sale of equity investment *(Note 3)*	–	–	(1,015)
Realized (gains) losses on held-for-trading and available-for-sale assets	256	618	410
New mutual fund business acquisition costs capitalized	(96)	(99)	(56)
Redemption fees of mutual funds	13	16	22
Net cash provided by operating activities	2,864	3,548	1,737
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES			
Borrowed funds	(33)	(5)	(17)
Issuance of senior financing *(Note 12)*	76	223	118
Collateral on senior financing *(Note 12)*	14	231	(258)
Issuance of senior debentures *(Note 11)*	–	799	–
Issuance of subordinated debt *(Note 13)*	–	496	746
Redemption and maturity of subordinated debt *(Note 13)*	(300)	–	–
Issuance of preferred shares *(Note 15)*	280	250	–
Payments to underwriters *(Note 15)*	(9)	(6)	–
Issuance of common shares on exercise of stock options	15	6	8
Common shares purchased for cancellation *(Note 15)*	–	–	(217)
Dividends paid on common shares	(543)	(864)	(809)
Dividends paid on preferred shares	(91)	(78)	(70)
Net cash provided by (used in) financing activities	(591)	1,052	(499)
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES			
Sales, maturities and repayments of:			
Bonds	24,803	17,583	15,697
Mortgages and corporate loans	5,629	5,285	5,624
Stocks	1,389	1,535	1,715
Real estate	128	48	109
Purchases of:			
Bonds	(28,719)	(18,548)	(15,706)
Mortgages and corporate loans	(6,241)	(3,738)	(5,746)
Stocks	(1,096)	(1,228)	(1,915)
Real estate	(202)	(164)	(320)
Policy loans	(59)	(153)	(162)
Short-term securities	1,047	(2,998)	(1,530)
Cash cost of acquisition *(Note 3)*	–	(387)	–
Cash and cash equivalents acquired on acquisition *(Note 3)*	–	402	–
Net cash paid on the sale of reinsurance business *(Note 3)*	(262)	–	–
Net cash from sale of equity investment *(Note 3)*	–	–	1,546
Other investments	(861)	(1,088)	723
Net cash provided by (used in) investing activities	(4,444)	(3,451)	35
Changes due to fluctuations in exchange rates	(85)	(802)	642
Increase (decrease) in cash and cash equivalents	(2,256)	347	1,915
Cash and cash equivalents, beginning of year	5,865	5,518	3,603
Cash and cash equivalents, end of year	3,609	5,865	5,518
Short-term securities, end of year	4,878	6,003	3,361
Cash, cash equivalents and short-term securities, end of year	$ 8,487	$ 11,868	$ 8,879
Supplementary Information			
Cash and cash equivalents:			
Cash	$ 879	$ 1,191	$ 745
Cash equivalents	2,730	4,674	4,773
	$ 3,609	$ 5,865	$ 5,518
Cash disbursements (receipts) for (from):			
Interest on borrowed funds, debentures and subordinated debt	$ 444	$ 384	$ 381
Income taxes, net of refunds	$ (143)	$ 212	$ 467

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)	2010	2009	2008
ADDITIONS TO SEGREGATED FUNDS			
Deposits:			
Annuities	$ 9,700	$ 10,135	$ 9,236
Life insurance	854	925	1,683
	10,554	11,060	10,919
Net transfers (to) from general funds	921	860	539
Net realized and unrealized (losses) gains	6,901	10,324	(17,772)
Other investment income	2,054	1,995	2,481
	20,430	24,239	(3,833)
DEDUCTIONS FROM SEGREGATED FUNDS			
Payments to policyholders and their beneficiaries	8,884	9,708	7,843
Management fees	1,173	925	861
Taxes and other expenses	248	268	188
Effect of changes in currency exchange rates	2,519	4,424	(5,282)
	12,824	15,325	3,610
Net additions (reductions) to segregated funds for the year	7,606	8,914	(7,443)
Acquisition *(Note 3)*	–	6,629	–
Segregated funds net assets, beginning of year	81,305	65,762	73,205
Segregated funds net assets, end of year	$ 88,911	$ 81,305	$ 65,762

Consolidated Statements of Segregated Funds Net Assets

AS AT DECEMBER 31 (in millions of Canadian dollars)	2010	2009
ASSETS		
Segregated and mutual fund units	$ 71,972	$ 64,265
Stocks	8,006	7,832
Bonds	7,988	7,813
Cash, cash equivalents and short-term securities	2,502	1,647
Real estate	299	319
Mortgages	29	34
Other assets	5,059	1,905
	95,855	83,815
LIABILITIES	6,944	2,510
Net assets attributable to segregated funds policyholders	$ 88,911	$ 81,305

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. ("SLF Inc.") is a publicly traded company and is the holding company of Sun Life Assurance Company of Canada ("Sun Life Assurance") and Sun Life Global Investments Inc. Both SLF 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"). SLF Inc. and its subsidiaries are collectively referred to as "us", "our", "ours", "we" or "the Company". We are an internationally diversified financial services organization providing savings, retirement and pension products, and life and health insurance to individuals and groups through our operations in Canada, the United States, the United Kingdom and Asia. We also operate mutual fund and investment management businesses, primarily in Canada, the United States and Asia.

Basis of presentation

We prepare our Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles ("GAAP"), as issued by the Accounting Standards Board ("AcSB") of the Canadian Institute of Chartered Accountants ("CICA").

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

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

Actual results could differ from those estimates.

A summary of differences between Canadian and U.S. GAAP is provided in Note 26.

The significant accounting policies used in the preparation of our Consolidated Financial Statements are summarized below.

Basis of consolidation

Our Consolidated Financial Statements reflect the assets and liabilities and results of operations of all subsidiaries and variable interest entities ("VIE") in which we are the primary beneficiary after intercompany balances and transactions have been eliminated. The purchase method is used to account for the acquisition of 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 we are able to exercise significant influence. Investments in these other entities are reported in Policy loans and other invested assets in our Consolidated Balance Sheets with our share of earnings reported in Other net investment income (loss) in our Consolidated Statements of Operations and our share of other comprehensive income ("OCI") in our Consolidated Statements of Comprehensive Income. The proportionate consolidation method is used to account for our interest in investments over which we exercise joint control, resulting in the consolidation of our proportionate share of assets, liabilities, income and expenses in our Consolidated Financial Statements.

Bonds – held-for-trading and available-for-sale

Bonds are designated as held-for-trading or available-for-sale and are carried at fair value. Generally, bonds supporting our actuarial liabilities are designated as held-for-trading. Changes in fair value of held-for-trading bonds are recorded to Change in fair value of held-for-trading assets in our Consolidated Statements of Operations. Because the value of actuarial liabilities is determined by reference to the assets supporting those liabilities, changes in the actuarial liabilities offset a significant portion of the change in fair value of the assets, except for changes in the fair value of the assets that are due to other-than-temporary impairment. Bonds not supporting our actuarial liabilities are generally designated as available-for-sale. Changes in fair value of available-for-sale bonds are recorded to unrealized gains and (losses) in OCI.

Purchases and sales of bonds are recognized or derecognized in our Consolidated Balance Sheets on their trade dates, which are the dates that we commit to purchase or sell the bond. Transaction costs for bonds classified as held-for-trading are recorded to Change in fair value of held-for-trading assets, while transaction costs for bonds classified as available-for-sale are capitalized on initial recognition and are recognized in income using the effective interest method.

Realized gains and losses on the sale of available-for-sale bonds are reclassified from accumulated OCI and recorded to Net gains (losses) on available-for-sale assets in our Consolidated Statements of Operations. Since held-for-trading bonds are measured at fair value, realized gains and losses are included with unrealized gains and losses in Change in fair value of held-for-trading assets in our Consolidated Statements of Operations. Interest income earned on both held-for-trading and available-for-sale bonds is recorded as Other net investment income (loss) in our Consolidated Statements of Operations.

Bonds are tested for impairment on a quarterly basis. Objective evidence of impairment includes financial difficulty of the issuer, bankruptcy, and default or ongoing delinquency in payment of interest or principal. Since held-for-trading bonds are recorded at fair value with changes in fair value recorded to income, any reduction in value of the asset due to impairment is already reflected in investment income. Impairment of held-for-trading bonds may impact the change in actuarial liabilities due to the impact of impairment on future cash flows. When there is objective evidence that an available-for-sale bond is impaired and the decline in value is considered other than temporary, the loss accumulated in OCI is reclassified to Net gains (losses) on available-for-sale assets in our Consolidated Statements of Operations. If the fair value of an available-for-sale bond recovers after an impairment loss is recognized and the recovery can be objectively related to an event occurring after the impairment loss was recognized in net income, the impairment loss is reversed with the amount of the reversal recognized in net income. Subsequently, available-for-sale bonds continue to be recorded at fair value with changes in fair value recorded to OCI. Interest is recognized on previously impaired available-for-sale bonds in accordance with the effective interest rate method.

Mortgages and corporate loans

Mortgages and corporate loans are accounted for at amortized cost using the effective interest method. Purchases and sales of mortgages and corporate loans are recognized or derecognized in our Consolidated Balance Sheets on their trade dates, which are the dates that we commit to purchase or sell the asset. Transaction costs on mortgages and corporate loans are capitalized on initial recognition and are recognized in income using the effective interest method.

Realized gains and losses on the sale of mortgages and corporate loans and interest income earned are recorded in Other net investment income (loss) in our Consolidated Statements of Operations.

Mortgages and corporate loans are individually evaluated for impairment in establishing the allowance for credit losses. However, the full extent of impairment present in the portfolio of mortgages and corporate loans cannot be identified solely by reference to individual loans. When the credit quality of groups of loans to borrowers operating in particular sectors has deteriorated, additional impairment that cannot be identified on a loan-by-loan basis is estimated collectively for the group on a sectoral basis.

Mortgages and corporate loans are classified as impaired when there is no longer reasonable assurance of the timely collection of the full amount of principal and interest or when the troubled debt is restructured. When an asset is classified as impaired, allowances for credit losses are established to adjust the carrying value of the asset to its net recoverable amount. The allowance for credit losses is estimated using the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral, if the loan is collateral dependent.

Interest income is recognized on impaired mortgages and corporate loans when the collection of contractually specified future cash flows is probable, in which case cash receipts are recorded in accordance with the effective interest rate method. Interest income is not recognized on impaired mortgages and corporate loans and these mortgages and corporate loans are placed on nonaccrual status when the collection of contractually specified future cash flows is not probable, in which case cash receipts are applied, firstly against the carrying value of the loan, then against the provision, and then to income. The accrual of interest resumes when the collection of contractually specified future cash flows becomes probable based on certain facts and circumstances.

Changes in allowances for losses, and write-offs of specific mortgages and corporate loans net of recoveries, are charged against Other net investment income (loss) in our Consolidated Statements of Operations. Once the conditions causing impairment improve and future payments are reasonably assured, allowances are reduced and the mortgages and corporate loans are no longer classified as impaired unless the troubled debt was restructured, in which case it remains classified as impaired.

If the conditions causing impairment do not improve and future payments remain unassured, we typically derecognize the asset through disposition or foreclosure. Uncollectible collateral-dependent loans are written off through allowances for losses at the time of disposition or foreclosure.

Stocks – held-for-trading and available-for-sale

Stocks are designated as held-for-trading or available-for-sale and are generally carried at fair value. Stocks that do not have a quoted market price in an active market and that are designated as available-for-sale are carried at cost. Generally, stocks supporting our actuarial liabilities are designated as held-for-trading. Changes in fair value of held-for-trading stocks are recorded to Change in fair value of held-for-trading assets in our Consolidated Statements of Operations. The majority of held-for-trading equities are held to support products where investment returns are passed through to policyholders, hence equity market movements are largely offset by changes in actuarial liabilities. Stocks not supporting our actuarial liabilities are generally designated as available-for-sale. Changes in fair value of available-for-sale stocks are recorded to Unrealized gains and (losses) on available-for-sale assets within OCI in our Consolidated Statements of Comprehensive Income.

Purchases and sales of stocks are recognized or derecognized in our Consolidated Balance Sheets on their trade dates, which are the dates that we commit to purchase or sell the stock.

Realized gains and losses on the sale of available-for-sale stocks are reclassified from accumulated OCI and recorded as Net gains (losses) on available-for-sale assets in our Consolidated Statements of Operations. Since held-for-trading stocks are measured at fair value, realized gains and losses are included along with unrealized gains and losses in Change in fair value of held-for-trading assets

in our Consolidated Statements of Operations. Dividends received on both held-for-trading and available-for-sale stocks are recorded as Other net investment income (loss) in our Consolidated Statements of Operations.

All equity instruments in an unrealized loss position are reviewed quarterly to determine if objective evidence of impairment exists. Objective evidence of impairment for an investment in an equity instrument includes, but is not limited to, the financial condition and near-term prospects of the issuer, including information about significant changes with adverse effects that have taken place in the technological, market, economic or legal environment in which the issuer operates that may indicate that the carrying amount will not be recovered, and a significant or prolonged decline in the fair value of an equity instrument below its cost. If, as a result of this review, the security is determined to be other-than-temporarily impaired, it is written down to its fair value. When this occurs, the loss accumulated in OCI is reclassified to Net gains (losses) on available-for-sale assets in our Consolidated Statements of Operations.

Derivative financial instruments

Derivative financial instruments are required to be classified as held-for-trading unless designated as a hedge for accounting purposes. We are required to identify derivatives embedded in other contracts unless the host contract is an insurance policy issued by us. Embedded derivatives identified are bifurcated from the host contract if the host contract is not already measured at fair value, with changes in fair value recorded to income (such as held-for-trading assets), 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. We chose a transition date of January 1, 2003 for embedded derivatives and, therefore, are only required to account separately for those embedded derivatives in hybrid instruments issued, acquired or substantially modified after that date.

All derivatives, including derivatives designated as hedges for accounting purposes and embedded derivatives, are recorded in our Consolidated Balance Sheets at fair value. Derivatives with a positive fair value are recorded as Derivative assets while derivatives with a negative fair value are recorded as Derivative liabilities. The accounting for the changes in fair value of derivatives depends on whether or not they are designated as hedges for accounting purposes.

Derivatives not designated as accounting hedges (“derivative investments”) and embedded derivatives

Derivative investments and embedded derivatives are recorded in our Consolidated Balance Sheets at fair value with interest income earned and paid and changes in fair value recorded to Income (loss) from derivative investments in our Consolidated Statements of Operations.

Derivatives designated as hedges for accounting purposes

Hedge accounting is applied to certain derivatives to reduce income statement volatility, in accordance with risk management objectives. All derivatives designated as hedges for accounting purposes are documented at inception and hedge effectiveness is assessed on a quarterly basis. The accounting for the change in fair value of these derivatives depends on the hedge designation for accounting purposes.

Fair value hedges

Certain interest rate swaps, cross currency swaps and equity forwards are designated as hedges of the interest rate, foreign currency or equity exposures associated with available-for-sale assets. Changes in fair value of the derivatives are recorded to Other net investment income (loss) in our Consolidated Statements of Operations. The change in fair value of these available-for-sale assets related to the effective portion of the hedged risk is recorded in Other net investment income (loss) to offset the change in fair value on the hedging derivatives. As a result, ineffectiveness, if any, is recognized in Other net investment income (loss). Interest income earned and paid on the available-for-sale assets and swaps in the fair value hedging relationships are also recorded to Other net investment income (loss).

Cash flow hedges

Certain equity forwards are designated as cash flow hedges of the anticipated payments of awards under certain stock-based compensation plans. The difference between the forward price and the spot price of these forwards is excluded from the assessment of hedge effectiveness and is recorded in Other net investment income (loss) in our Consolidated Statements of Operations. Changes in fair value based on spot price changes are recorded to OCI, with the remaining changes in fair value recorded to Other net investment income (loss). A portion of the amount included in accumulated OCI related to these forwards is reclassified to Operating expenses in our Consolidated Statements of Operations as the liability is accrued for the stock-based compensation awards over the vesting period. All amounts recorded to or from OCI are net of related taxes.

Net investment hedges

We use currency swaps and/or forwards to reduce foreign exchange fluctuations associated with certain foreign currency investment financing activities. Changes in fair value of these swaps and forwards, along with interest earned and paid on the swaps, are recorded to the Unrealized foreign currency gains (losses), in OCI, offsetting the respective exchange gains or losses arising from the underlying investments. All amounts recorded to or from OCI are net of related taxes. If the hedging relationship is terminated, amounts deferred in accumulated OCI continue to be deferred until there is a reduction in our net investment in the hedged foreign operation resulting from a capital transaction, dilution or sale of all or part of the foreign operation.

Real estate
Real estate includes real estate held for investment and real estate held for sale. Rental income earned and related expenses paid are recognized in Other net investment income (loss) in our Consolidated Statements of Operations.

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 Other net investment income (loss) at the rate of 3% of the unamortized balance each quarter.

Fair value is determined for each property by qualified appraisers. All income producing properties receive an annual appraisal verified by an external valuator at least once every two years. We monitor for impairment on a portfolio basis and recognize a write-down to fair value for other-than-temporary impairment in Other net investment income (loss) if the carrying value of all properties held is greater than its fair value.

Real estate held for sale: Properties held for sale are usually acquired through foreclosure, but may also be classified as held for sale based on management's intent to sell. They are measured initially at fair value less the cost to sell and subsequently at the lower of carrying value and fair value less the cost to sell. When the amount at which the foreclosed or reclassified asset is initially measured is different from the carrying amount of the loan or property, a gain or loss is recorded at the time of foreclosure or reclassification.

Cash, cash equivalents and short-term securities
Cash, cash equivalents and short-term securities are highly liquid investments. Cash equivalents have an original term to maturity of three months or less, while short-term securities have a term to maturity exceeding three months but less than one year. Cash equivalents and short-term securities are designated as held-for-trading and are recorded at fair value with changes in fair value reported in Change in fair value of held-for-trading assets in our Consolidated Statements of Operations.

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

Policy loans and other invested assets in our Consolidated Balance Sheets include investments accounted for by the equity method, leases and joint ventures.

Other invested assets – held-for-trading and available-for-sale
Other invested assets designated as held-for-trading are primarily investments in segregated funds and mutual funds. These assets are supporting our actuarial liabilities or are investments held within our non-insurance subsidiaries. Held-for-trading assets are reported in our Consolidated Balance Sheets at fair value with changes in fair value reported as Changes in fair value of held-for-trading assets in our Consolidated Statements of Operations. Other invested assets designated as available-for-sale include investments in limited partnerships. These investments are accounted for at cost since these assets are not traded in an active market. Distributions received, such as dividends, are recorded to Other net investment income (loss) in our Consolidated Statements of Operations. Other invested assets designated as available-for-sale also include investments in segregated funds and mutual funds, which are recorded at fair value with changes in fair value recognized in OCI.

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.

Goodwill
Goodwill represents the excess of the cost to acquire businesses over the fair value of the net identifiable tangible and intangible assets of the businesses, and is not amortized. Goodwill is assessed for impairment annually by comparing the carrying values of the appropriate reporting units 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. Goodwill impairment assessments may occur in between annual periods if events or circumstances occur that may result in the fair value of a reporting unit falling below its carrying amount.

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. The useful lives of finite life intangible assets are reviewed annually, and the amortization is adjusted as necessary. Indefinite-life intangibles are not amortized and are assessed for impairment annually or more frequently if events or changes in circumstances indicate that the asset may be impaired. Impairment is assessed by comparing the carrying values of the indefinite-life intangible assets 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 2 to 10 years.

Segregated funds

Segregated funds are lines of business in which we issue contracts where the benefit amounts are directly linked to the fair value of the investments held in the particular segregated fund. Although the underlying assets are registered in our name and the segregated fund contract holders have 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 us. We derive fee income from segregated funds, which is included in Fee income in our Consolidated Statements of Operations. Policyholder transfers between general funds and segregated funds are included in Net transfers to (from) segregated funds in our 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 us. 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 our Consolidated Statements of Operations. Segregated fund assets may not be applied against liabilities that arise from any of our other business.

Actuarial liabilities and other policy liabilities

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

Senior debentures and subordinated debt

Senior debentures and Subordinated debt are recorded at amortized cost using the effective interest method. Transaction costs are recorded as part of the liability and are recognized in income using the effective interest method.

Income taxes

We use the asset and 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 tax effect of cumulative temporary differences between the carrying value of our assets and liabilities on the balance sheet and their values for tax purposes. 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 our Consolidated Balance Sheet dates. Future income tax assets are recognized to the extent that they are more likely than not to be realized.

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

Premium and fee income recognition

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. Fee income includes fund management fees, mortality, policy administration and surrender charges on segregated funds, and is recognized on an accrual basis.

Foreign currency translation

Our exchange gains and losses arising from the conversion of our self-sustaining foreign operations are included in the Unrealized foreign currency translation gains (losses) of our Consolidated Statements of Comprehensive Income. 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 part of accumulated OCI in our Consolidated Statements of Equity.

A proportionate amount of the exchange gain or loss accumulated in OCI is reflected in net income when there is a reduction in our 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

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 fair 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 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. The cumulative excess of funding contributions over the amount recorded as an expense is reported as an accrued benefit asset in Other assets in our Consolidated Balance Sheets. The cumulative excess of expense over contributions is reported as an accrued liability in Other liabilities in our Consolidated Balance Sheets.

Stock-based compensation

Stock options granted to employees are accounted for using the fair value method. Under the fair value method, the fair value of stock options is estimated at the grant date and the total fair value of the options is amortized over the vesting periods as compensation expenses with an offset to contributed surplus in our Consolidated Statements of Equity. 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 our Consolidated Statements of Equity.

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 SLF 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

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the CICA issued three new Handbook Sections: Section 1582, *Business Combinations*; Section 1601, *Consolidated Financial Statements*; and Section 1602, *Non-Controlling Interests*. Section 1582 clarifies that an acquisition occurs when an entity obtains control of a business and provides guidance on determining the date of the acquisition and the measurement and recognition of assets acquired and liabilities assumed. Section 1601 provides standards for the preparation of consolidated financial statements. Section 1602 requires that non-controlling interests be presented as part of equity and that transactions between us and the non-controlling interests be reported as equity transactions. These sections are effective for fiscal years beginning on or after January 1, 2011, with early adoption allowed to facilitate the transition to International Financial Reporting Standards ("IFRS"). We did not early adopt these sections.

Accounting adjustments

During the second quarter of 2010, we made an accounting adjustment for an error that originated at Clarica Life Insurance Company prior to our acquisition of that business in 2002. The error includes an understatement of actuarial liabilities and an overstatement of future income tax liabilities. The error is not material to our Consolidated Financial Statements of each of the prior periods to which it relates, but correcting for the cumulative impact of the error through our Consolidated Statements of Operations in one reporting period would have materially impacted the results of the reporting period. Accordingly, we corrected the error by increasing Actuarial liabilities and policy liabilities by $120, decreasing future income tax liabilities in Other liabilities by $34, increasing Other assets by $9, and correspondingly, decreasing shareholders' opening retained earnings by $77 as at January 1, 2008.

International Financial Reporting Standards

In accordance with the requirements of the AcSB, all publicly accountable enterprises will adopt IFRS as of January 1, 2011 with comparatives for the prior year. Our first Annual Consolidated Financial Statements will be prepared for the year ending December 31, 2011. We will publish our first Interim Consolidated Financial Statements prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, for the quarter ending March 31, 2011.

3. Acquisitions and dispositions

Acquisitions

On October 1, 2009, we acquired the United Kingdom operations of Lincoln National Corporation ("Lincoln U.K.") for $387. The acquisition, which included both general and segregated fund businesses, increased the assets under management in the United Kingdom by nearly 60% and doubled the number of policies in-force. The results and assets of Lincoln U.K., including goodwill, are included in the Corporate reportable segment in our Consolidated Financial Statements. The Lincoln U.K. results are included in the 2009 income reported from October 1, 2009. There were no material adjustments to the purchase price allocation in 2010.

The Lincoln U.K. acquisition is summarized below:

	2009 Lincoln U.K.
Percentage of shares acquired	100%
Invested assets acquired	$ 1,249
Other assets acquired	88
	$ 1,337
Actuarial liabilities and other policy liabilities acquired	$ 1,058
Other liabilities acquired	72
	$ 1,130
Net balance sheet assets acquired	$ 207
Consideration:	
Cash cost of acquisition[1]	$ 380
Transaction and other related costs	7
Total consideration	$ 387
Goodwill on acquisition	$ 180
Cash and cash equivalents acquired	$ 402
Increase in segregated fund net assets	$ 6,629

(1) Includes the cost to hedge the foreign currency exposure of the purchase price.

Dispositions

On October 27, 2010, we entered into an agreement with Berkshire Hathaway Life Co. of Nebraska ("BHLN") to sell our life retrocession business. Our run-off reinsurance business, which is a closed block of reinsurance assumed from other reinsurers, is excluded from this agreement. The transaction closed on December 31, 2010. The transaction was structured as reinsurance agreements between BHLN and us, in which we transferred the actuarial liabilities as well as the policy-related assets and liabilities to BHLN. The net cash payments to BHLN was $240 in lieu of transferring the invested assets backing the actuarial liabilities. As a result of the agreement, we have exited the life retrocession business and transferred the infrastructure (which includes the IT systems and workforce) needed to administer the life retrocession business to BHLN. As we transferred substantially all of the economic risks and benefits relating to this business, the transaction was accounted for as a sale of business. The gain on disposal (net of taxes of $129) was $1. The pre-tax gain on disposal, net of the related goodwill of $309, was recorded in Other net investment income (loss) in our Consolidated Statements of Operations.

On December 12, 2008, we sold our 37% interest in CI Financial to the Bank of Nova Scotia in exchange for cash of $1,552, common shares with a fair value of $437 and preferred shares with a fair value of $250 for total proceeds of $2,239. The investment was accounted for by the equity method and had a carrying value of $1,218 as at the date of sale. A pre-tax gain of $1,015, net of transaction costs of $6, was recorded in Net investment income (loss) in the fourth quarter ($825 net of taxes).

4. Segmented information

We have five reportable 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. Our reportable segments operate in the financial services industry and reflect our management structure and internal financial reporting. Our 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 our U.K. business unit and our Corporate Support operations. Our Corporate Support operations includes our life retrocession and run-off reinsurance as well as investment income, expenses, capital and other items not allocated to our other business groups. The life retrocession business was sold on December 31, 2010. Details of this disposition are included in Note 3. Total net income in Corporate is shown net of certain expenses borne centrally.

Intersegment transactions consist primarily of internal financing agreements. They are measured at fair values prevailing when the arrangements are negotiated. Intersegment revenue for 2010 consists mainly of interest of $130 ($144 in 2009 and $144 in 2008) and fee income of $59 in 2010 ($48 in 2009 and $52 in 2008).

The results for Corporate for 2008 include the net of tax gain on the sale of CI Financial of $825. Results of the investment in CI Financial were included in SLF Canada in 2008.

Results by segment for the years ended December 31

	SLF Canada	SLF U.S.	MFS	SLF Asia[1]	Corporate	Consolidation Adjustments	Total
2010							
Revenue	$ 11,449	$ 8,104	$ 1,449	$ 1,709	$ 2,118	$ (189)	$ 24,640
Change in actuarial liabilities	$ 2,284	$ (280)	$ –	$ 690	$ 215	$ –	$ 2,909
Interest expense	$ 167	$ 273	$ –	$ –	$ 129	$ (129)	$ 440
Income taxes expense (benefit)	$ 94	$ 111	$ 137	$ 34	$ (5)	$ –	$ 371
Total net income (loss)	$ 836	$ 302	$ 208	$ 92	$ 247	$ –	$ 1,685
2009							
Revenue	$ 11,407	$ 11,714	$ 1,251	$ 1,813	$ 1,579	$ (192)	$ 27,572
Change in actuarial liabilities	$ 2,672	$ 4,269	$ –	$ 800	$ (43)	$ (1)	$ 7,697
Interest expense	$ 152	$ 246	$ –	$ –	$ 148	$ (143)	$ 403
Income taxes expense (benefit)	$ (54)	$ (502)	$ 101	$ 21	$ (108)	$ –	$ (542)
Total net income (loss)	$ 871	$ (461)	$ 152	$ 76	$ (16)	$ –	$ 622
2008							
Revenue	$ 7,927	$ 3,817	$ 1,381	$ 498	$ 2,144	$ (204)	$ 15,563
Change in actuarial liabilities	$ (854)	$ (2,920)	$ –	$ (444)	$ (200)	$ (11)	$ (4,429)
Interest expense	$ 181	$ 263	$ 2	$ –	$ 64	$ (144)	$ 366
Income taxes expense (benefit)	$ 435	$ (648)	$ 133	$ 22	$ (285)	$ –	$ (343)
Total net income (loss)	$ 647	$ (1,016)	$ 194	$ 33	$ 999	$ –	$ 857

[1] During the third quarter of 2010, our joint venture in China was restructured with the introduction of additional strategic investors. Under the restructuring, which resulted in a net gain of $19, our interest in Sun Life Everbright Life Insurance Company Limited was reduced from 50% to 24.99%.

Assets by segment as at December 31

	SLF Canada	SLF U.S.	MFS	SLF Asia	Corporate	Consolidation Adjustments	Total
2010							
General fund assets	$ 59,532	$ 41,047	$ 990	$ 7,167	$ 12,357	$ (234)	$ 120,859
Segregated funds net assets	$ 47,171	$ 28,830	$ –	$ 2,148	$ 10,762	$ –	$ 88,911
2009							
General fund assets	$ 55,631	$ 42,615	$ 859	$ 6,437	$ 15,854	$ (1,305)	$ 120,091
Segregated funds net assets	$ 41,426	$ 26,848	$ –	$ 1,788	$ 11,243	$ –	$ 81,305

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

	2010	2009	2008
Revenue for the years ended December 31:			
United States	$ 527	$ 555	$ 580
United Kingdom	1,332	870	313
Canada	241	138	1,235
Other countries	18	16	16
Total revenue	$ 2,118	$ 1,579	$ 2,144
Total net income (loss) for the years ended December 31:			
United States	$ 82	$ 149	$ (70)
United Kingdom	252	5	208
Canada	(101)	(170)	860
Other countries	14	–	1
Total net income (loss)	$ 247	$ (16)	$ 999
Assets as at December 31:			
General funds:			
United States	$ 2,919	$ 4,592	
United Kingdom	8,066	8,630	
Canada	1,257	2,516	
Other countries	115	116	
Total general fund assets	$ 12,357	$ 15,854	
Segregated funds:			
United Kingdom	$ 10,762	$ 11,243	
Total segregated funds net assets	$ 10,762	$ 11,243	

5. Financial investments and related net investment income (loss)

We invest primarily in bonds, mortgages, stocks and real estate. The accounting policy for each type of financial investment is described in Note 1.

5.A Fair value of financial investments

The carrying values and fair values of our invested assets as at December 31 are shown in the following table.

	2010			2009		
	Carrying Value	Fair Value	Yield %	Carrying Value	Fair Value	Yield %
Assets						
Bonds – held-for-trading	$ 54,753	$ 54,753	5.45	$ 51,634	$ 51,634	5.72
Bonds – available-for-sale	10,752	10,752	4.50	9,673	9,673	5.10
Mortgages and corporate loans	19,511	20,430	5.29	19,449	19,941	5.27
Stocks – held-for-trading	4,424	4,424	2.42	4,331	4,331	2.41
Stocks – available-for-sale	808	809	2.90	635	649	4.34
Real estate	4,919	5,125	8.07	4,877	5,124	9.01
Policy loans and other invested assets [1]	3,525	3,525	5.51	3,503	3,503	6.02
Cash, cash equivalents and short-term securities	8,487	8,487	n/a	11,868	11,868	n/a
Derivative assets	1,629	1,629	n/a	1,382	1,382	n/a
Other invested assets – held-for-trading	419	419	n/a	425	425	n/a
Other invested assets – available-for-sale	454	492	n/a	452	484	n/a
Total invested assets	$ 109,681	$ 110,845	4.88	$ 108,229	$ 109,014	4.89

[1] Policy loans have a carrying value and fair value of $3,279 ($3,303 in 2009).

The preceding table includes only derivative financial instruments that have a positive fair value and are, therefore, recorded as assets in our Consolidated Balance Sheets. Derivative liabilities with a fair value of $700 ($1,257 in 2009) are also reported in our Consolidated Balance Sheets.

5.A.i Fair value methodologies and assumptions

The fair value of publicly traded fixed maturity and equity securities is determined using quoted market bid prices in active markets that are readily and regularly obtainable, when available. When quoted prices in active markets are not available, the determination of fair value is based on market standard valuation methodologies, which include matrix pricing, consensus pricing from various broker dealers that are typically the market makers, discounted cash flows, or other similar techniques. The assumptions and valuation inputs in applying these market standard valuation methodologies are determined primarily using observable market inputs, which include, but are not limited to, benchmark yields, issuer spreads, reported trades of identical or similar instruments and prepayment speeds. Prices obtained from independent pricing services are validated through back-testing to trade data, comparison to observable market inputs or other economic indicators, and other qualitative analysis to ensure that the fair value is reasonable. For securities in which fair value that is based solely on non-binding broker quotes that cannot be validated to observable market data, we typically consider the fair value to be based on unobservable market inputs, due to a general lack of transparency in the process that the brokers use to develop the prices. Stocks that do not have a quoted market price on an active market and are designated as available-for-sale are reported at cost and are not material to our Consolidated Financial Statements.

The fair value of non-publicly traded bonds is determined using a discounted cash flow approach that includes provisions for credit risk, liquidity premium, and the expected maturities of the securities. The valuation techniques used are primarily based on observable market prices or rates.

The fair value of derivative financial instruments depends upon the type of derivative, and is determined primarily using observable market inputs. Fair value of exchange-traded futures is based on the quoted market prices, while fair value of interest rate and cross-currency swaps and forward contracts is determined by discounting expected future cash flows using current market interest and exchange rates for similar instruments. Fair value of common stock index swaps and options is determined using the value of underlying securities or indices and option pricing models using index prices, projected dividends and volatility surfaces.

The fair value of over-the-counter ("OTC") derivative financial instruments also includes credit valuation adjustments to reflect the risk of default for both the derivative counterparty and ourselves. These valuation adjustments take into account the creditworthiness of the counterparties and us, as well as the impact of contractual factors designed to reduce our credit exposure such as collateral. Inputs into determining the appropriate credit valuation adjustment are typically obtained from publicly available information and include credit default swap spreads when available, credit spreads derived from specific bond yields, or published cumulative default experience data adjusted for current trends when credit default swap spreads are not available.

Fair value of mortgages and corporate loans is determined by discounting the expected future cash flows using current market interest rates with similar credit risks and terms to maturity. Fair value of real estate is determined by external appraisals, using expected future net cash flows discounted at current market interest rates. Fair values of policy loans and cash are assumed to be equal to their carrying values, due to their nature. Fair values of cash equivalents and short-term securities are based on market yields. The fair values of other invested assets are usually determined by reference to quoted market prices.

5.A.ii Yield calculation

Yield for all assets, except real estate, is calculated based on total net interest, dividend or other investment income divided by the total average amortized cost or cost of the assets, which includes accrued investment income. The yield for real estate was calculated based on its average carrying value, which includes deferred net realized gains.

5.A.iii Fair value hierarchy of financial instruments

We categorized our financial instruments carried at fair value, based on the priority of the inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy as follows:

Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market. The types of financial instruments classified as level 1 generally include U.S. Treasury and agency securities, cash and cash equivalents, and exchange-traded equities.

Level 2: Fair value is based on quoted prices for similar assets or liabilities in active markets, valuation that is based on significant observable inputs, or inputs that are derived principally from or corroborated with observable market data through correlation or other means. The types of financial instruments classified as level 2 generally include government bonds, certain corporate and private bonds, certain asset-backed securities (“ABS”) and derivatives.

Level 3: Fair value is based on valuation techniques that require one or more significant inputs that are not based on observable market inputs. These unobservable inputs reflect our expectations about the assumptions market participants would use in pricing the asset or liability. The types of financial instruments classified as level 3 generally include certain commercial mortgage-backed securities (“CMBS”), certain residential mortgage-backed securities (“RMBS”), certain structured products and certain corporate bonds.

The following table presents our financial instruments carried at fair value by hierarchical level, as at December 31, 2010.

	Level 1[1]	Level 2	Level 3	Total
Financial assets				
Bonds – held-for-trading				
Canada federal government	$ –	$ 2,271	$ –	$ 2,271
Canadian provincial and municipal government	–	7,718	42	7,760
U.S. Treasury and agency securities	1,778	117	6	1,901
Other foreign government securities	–	4,727	5	4,732
Corporate securities	–	33,589	870	34,459
Asset-backed securities				
Commercial mortgage-backed securities	–	1,038	606	1,644
Residential mortgage-backed securities	–	1,045	91	1,136
Collateralized debt obligations	–	22	83	105
Other	–	669	76	745
Total bonds – held-for-trading	$ 1,778	$ 51,196	$ 1,779	$ 54,753
Bonds – available-for-sale				
Canada federal government	$ –	$ 1,314	$ –	$ 1,314
Canadian provincial and municipal government	–	176	–	176
U.S. Treasury and agency securities	1,157	43	–	1,200
Other foreign government securities	–	449	–	449
Corporate securities	–	7,024	39	7,063
Asset-backed securities				
Commercial mortgage-backed securities	–	184	42	226
Residential mortgage-backed securities	–	279	1	280
Collateralized debt obligations	–	1	29	30
Other	–	14	–	14
Total bonds – available-for-sale	$ 1,157	$ 9,484	$ 111	$ 10,752
Stocks – held-for-trading	$ 3,846	$ 509	$ 69	$ 4,424
Stocks – available-for-sale	$ 636	$ 105	$ 41	$ 782
Cash, cash equivalents and short-term securities	$ 8,252	$ 235	$ –	$ 8,487
Derivative assets	$ 31	$ 1,584	$ 14	$ 1,629
Other invested assets	$ 255	$ 54	$ 155	$ 464
Total financial assets measured at fair value	$ 15,955	$ 63,167	$ 2,169	$ 81,291
Financial liabilities				
Amounts on deposit	$ –	$ 95	$ –	$ 95
Derivative liabilities	2	666	32	700
Total financial liabilities measured at fair value	$ 2	$ 761	$ 32	$ 795

[1] $1,167 were transferred from level 2 to level 1 due to the improved transparency of the inputs used to measure the fair value of the financial instruments.

The following table presents our financial instruments carried at fair value by hierarchical level, as at December 31, 2009.

	Level 1[1]	Level 2	Level 3	Total
Financial assets				
Bonds – held-for-trading				
Canada federal government	$ –	$ 2,707	$ –	$ 2,707
Canadian provincial and municipal government	–	6,677	110	6,787
U.S. Treasury and agency securities	1,111	330	–	1,441
Other foreign government securities	–	4,296	76	4,372
Corporate securities	–	31,872	891	32,763
Asset-backed securities				
Commercial mortgage-backed securities	–	952	586	1,538
Residential mortgage-backed securities	–	1,173	163	1,336
Collateralized debt obligations	–	27	92	119
Other	–	539	32	571
Total bonds – held-for-trading	$ 1,111	$ 48,573	$ 1,950	$ 51,634
Bonds – available-for-sale				
Canada federal government	$ –	$ 397	$ –	$ 397
Canadian provincial and municipal government	–	80	–	80
U.S. Treasury and agency securities	393	77	–	470
Other foreign government securities	–	519	–	519
Corporate securities	–	7,529	76	7,605
Asset-backed securities				
Commercial mortgage-backed securities	–	194	40	234
Residential mortgage-backed securities	–	318	–	318
Collateralized debt obligations	–	4	46	50
Total bonds – available-for-sale	$ 393	$ 9,118	$ 162	$ 9,673
Stocks – held-for-trading	$ 3,983	$ 348	$ –	$ 4,331
Stocks – available-for-sale	$ 627	$ –	$ 8	$ 635
Cash, cash equivalents and short-term securities	$ 9,610	$ 2,258	$ –	$ 11,868
Derivative assets	$ 29	$ 1,342	$ 11	$ 1,382
Other invested assets	$ 247	$ 195	$ 146	$ 588
Total financial assets measured at fair value	$ 16,000	$ 61,834	$ 2,277	$ 80,111
Financial liabilities				
Amounts on deposit	$ –	$ 82	$ –	$ 82
Derivative liabilities	8	1,205	44	1,257
Total financial liabilities measured at fair value	$ 8	$ 1,287	$ 44	$ 1,339

[1] A total of $4,390 were transferred from level 2 to level 1 due to the improved transparency of the inputs used to measure the fair value of the financial instruments.

The following table shows a reconciliation of the beginning and ending balances for financial instruments that are categorized in level 3 for the year ended December 31, 2010:

	Beginning balance	Included in net income (loss)[1][3]	Included in OCI[3]	Purchases	Sales	Settlements	Transfers into level 3[2]	Transfers (out) of level 3[2]	Ending balance	Gains (losses) included in earnings relating to instruments still held at ending date
Financial assets										
Bonds – held-for-trading										
Canadian provincial and municipal governments	$ 110	$ –	$ –	$ –	$ –	$ –	$ –	$ (68)	$ 42	$ 3
U.S. Treasury and agency securities	–	–	–	–	–	(1)	7	–	6	–
Other foreign government	76	(1)	–	3	–	–	3	(76)	5	(1)
Corporate securities	891	(17)	–	56	(97)	(38)	210	(135)	870	27
Asset-backed securities										
Commercial mortgage-backed securities	586	7	–	121	(77)	(25)	14	(20)	606	11
Residential mortgage-backed securities	163	7	–	1	(22)	(14)	39	(83)	91	25
Collateralized debt obligations	92	10	–	87	(51)	(21)	3	(37)	83	18
Other	32	5	–	24	–	(9)	34	(10)	76	8
Total bonds – held-for-trading	$ 1,950	$ 11	$ –	$ 292	$(247)	$ (108)	$ 310	$ (429)	$ 1,779	$ 91
Bonds – available-for-sale										
Corporate securities	$ 76	$ 1	$ 1	$ 3	$ (40)	$ (1)	$ 12	$ (13)	$ 39	$ 1
Asset-backed securities										
Commercial mortgage-backed securities	40	(3)	2	4	(1)	–	–	–	42	1
Residential mortgage-backed securities	–	–	–	1	–	–	–	–	1	–
Collateralized debt obligations	46	(10)	3	23	(33)	–	–	–	29	4
Total bonds – available-for-sale	$ 162	$ (12)	$ 6	$ 31	$ (74)	$ (1)	$ 12	$ (13)	$ 111	$ 6
Stocks – held-for-trading	$ –	$ 3	$ –	$ 66	$ –	$ –	$ –	$ –	$ 69	$ 3
Stocks – available-for-sale	$ 8	$ (2)	$ 2	$ 37	$ (2)	$ (2)	$ –	$ –	$ 41	$ 3
Derivative assets	$ 11	$ (2)	$ –	$ 14	$ –	$ (9)	$ –	$ –	$ 14	$ (1)
Other invested assets	$ 146	$ (7)	$ –	$ 28	$ (12)	$ –	$ –	$ –	$ 155	$ (3)
Total financial assets measured at fair value	$ 2,277	$ (9)	$ 8	$ 468	$(335)	$ (120)	$ 322	$ (442)	$ 2,169	$ 99
Financial liabilities[4]										
Derivative liabilities	$ 44	$ (16)	$ –	$ 1	$ –	$ –	$ 3	$ –	$ 32	$ (14)
Total financial liabilities measured at fair value	$ 44	$ (16)	$ –	$ 1	$ –	$ –	$ 3	$ –	$ 32	$ (14)

(1) Included within Net investment income (loss) in our Consolidated Statements of Operations.

(2) During 2010, transfers into level 3 occur when the inputs used to price the financial instrument lack observable market data and as a result, no longer meet the level 1 or 2 definition at the reporting date. In addition, transfers out of level 3 occur when the pricing inputs become more transparent and satisfy the level 1 or 2 criteria and are primarily the result of observable market data being available at the reporting date, thus removing the requirement to rely on inputs that lack observability. If a financial instrument is transferred into and out of level 3 during the same period, it is not included in the above table.

(3) Total gains and losses in net income (loss) and OCI are calculated assuming transfers into or out of level 3 occur at the beginning of the period. For a financial instrument that transfers into level 3 during the reporting period, the entire change in fair value for the period is included in the table above. For transfers out of level 3 during the reporting period, the change in fair value for the period is excluded from the table above.

(4) For liabilities, gains are indicated in negative numbers.

The following table shows a reconciliation of the beginning and ending balances for financial instrument that are categorized in level 3 for the year ended December 31, 2009:

	Beginning balance	Included in net income (loss)[1]	Included in OCI	Purchases	Sales	Settlements	Transfers into level 3[2]	Transfers out of level 3[2]	Ending balance	Gains (losses) included in earnings relating to instruments still held at ending date
Financial assets										
Bonds – held-for-trading										
Canada federal government Securities	$ 4	$ –	$ –	$ –	$ –	$ (4)	$ –	$ –	$ –	$ –
Canadian provincial and municipal governments	51	(8)	–	69	–	–	–	(2)	110	(3)
Other foreign government	11	(3)	–	78	–	–	–	(10)	76	(2)
Corporate securities	625	(43)	–	245	(40)	(18)	241	(119)	891	27
Asset-backed securities										
Commercial mortgage-backed securities	947	(44)	–	38	(110)	–	1	(246)	586	(4)
Residential mortgage-backed securities	124	(12)	–	–	–	(20)	112	(41)	163	69
Collateralized debt obligations	56	–	–	11	–	–	25	–	92	(4)
Other	82	(11)	–	–	–	(7)	37	(69)	32	4
Total bonds – held-for-trading	$ 1,900	$ (121)	$ –	$ 441	$(150)	$ (49)	$ 416	$ (487)	$ 1,950	$ 87
Bonds – available-for-sale										
Corporate securities	$ 54	$ (7)	$ 13	$ 16	$ (13)	$ (1)	$ 20	$ (6)	$ 76	$ –
Asset-backed securities										
Commercial mortgage-backed securities	58	(3)	(10)	–	–	–	–	(5)	40	–
Collateralized debt obligations	30	(3)	14	6	(15)	–	14	–	46	–
Total bonds – available-for-sale	$ 142	$ (13)	$ 17	$ 22	$ (28)	$ (1)	$ 34	$ (11)	$ 162	$ –
Stocks – available-for-sale	$ 36	$ (5)	$ (3)	$ –	$ –	$ –	$ –	$ (20)	$ 8	$ –
Derivative assets	$ 47	$ (8)	$ –	$ 7	$ (35)	$ –	$ –	$ –	$ 11	$ (4)
Other invested assets	$ 143	$ (19)	$ –	$ 30	$ (8)	$ –	$ –	$ –	$ 146	$ (13)
Total financial assets measured at fair value	$ 2,268	$ (166)	$ 14	$ 500	$(221)	$ (50)	$ 450	$ (518)	$ 2,277	$ 70
Financial liabilities[3]										
Derivative liabilities	$ 83	$ (39)	$ –	$ –	$ –	$ –	$ –	$ –	$ 44	$ 12
Total financial liabilities measured at fair value	$ 83	$ (39)	$ –	$ –	$ –	$ –	$ –	$ –	$ 44	$ 12

(1) Included within Net investment income (loss) in our Consolidated Statements of Operations.
(2) Transfers in and/or (out) of level 3 during 2009, are primarily attributable to changes in the transparency of inputs used to price the securities.
(3) For liabilities, gains are indicated in negative numbers.

5.B Real estate investments

The carrying value of real estate by geographic location as at December 31 is as follows:

	2010	2009
Canada	$ 3,370	$ 3,246
United States	1,323	1,373
United Kingdom	225	257
Other	1	1
Total real estate	$ 4,919	$ 4,877

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 as at December 31 is shown in the table below.

	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Real estate held for investment	$ 4,910	$ 5,116	$ 4,861	$ 5,108
Real estate held for sale	9	9	16	16
Total real estate	$ 4,919	$ 5,125	$ 4,877	$ 5,124

The carrying value of real estate that was non-income producing for the preceding 12 months was $142 in 2010 ($185 in 2009).

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

	2010	2009
Balance, January 1	$ 225	$ 251
Net realized gains for the year	28	12
Amortization of deferred net realized gains	(27)	(30)
Effect of changes in currency exchange rates	(7)	(8)
Balance, December 31	$ 219	$ 225

Amortization of deferred net realized gains on real estate for 2008 recorded to income was $33.

5.C Net investment income (loss)

Changes in fair value of held-for-trading assets recorded to net income (loss) for the years ended December 31 consist of the following:

	2010	2009	2008
Bonds	$ 2,288	$ 4,124	$ (5,852)
Stocks	431	705	(1,432)
Other invested assets	38	41	(122)
Cash equivalents and short-term securities	4	8	7
Total changes in fair value of held-for-trading assets	$ 2,761	$ 4,878	$ (7,399)

Income (loss) from derivative investments consists of income from derivatives that are not classified as hedges for accounting purposes. Income from derivative investments in our Consolidated Statements of Operations for the years ended December 31 consists of the following:

	2010	2009	2008
Changes in fair value	$ (95)	$ (847)	$ (154)
Interest income (expense)	(46)	(114)	(70)
Other income (loss)	15	18	4
Total income (loss) from derivative investments	$ (126)	$ (943)	$ (220)

Other net investment income (loss) for the years ended December 31 has the following components:

	2010	2009	2008
Interest income:			
Held-for-trading bonds	$ 2,902	$ 3,037	$ 3,006
Available-for-sale bonds	474	569	580
Mortgages and corporate loans	1,148	1,253	1,291
Policy loans	186	210	216
Cash, cash equivalents and short-term securities	31	36	147
Interest income	4,741	5,105	5,240
Dividends on held-for-trading stocks	107	115	117
Dividends on available-for-sale stocks	16	35	24
Real estate income (net) [1]	316	327	332
Amortization of deferred net realized gains and unrealized gains and losses	33	76	136
Foreign exchange gains (losses)	–	(10)	(22)
Other income (expense)[2]	158	(79)	354
Investment expenses and taxes	(126)	(107)	(103)
Total other net investment income (loss)	$ 5,245	$ 5,462	$ 6,078

[1] Includes operating lease rental income of $270 in 2010 ($283 and $293, in 2009 and 2008, respectively).
[2] In 2010, this includes the pre-tax gain on disposal of $130 relating to the sale of life retrocession business, as described in Note 3. In 2008, this includes equity income from CI Financial of $190. Our investment in CI Financial was sold in December 2008, as described in Note 3.

5.D Derivative financial instruments and hedging activities

The fair values of derivative financial instruments by major class of derivative as at December 31 are shown in the following table:

	2010		2009	
	Fair Value		Fair Value	
	Positive	Negative	Positive	Negative
Interest rate contracts	$ 588	$ (575)	$ 444	$ (910)
Foreign exchange contracts	965	(63)	801	(119)
Other contracts	76	(62)	137	(228)
Total derivatives	$ 1,629	$ (700)	$ 1,382	$ (1,257)

The following table presents the fair values of Derivative assets and Derivative liabilities categorized by derivatives designated as hedges for accounting purposes and those not designated as hedges as at December 31.

	2010			2009		
	Total Notional Amount	Fair value		Total Notional Amount	Fair Value	
		Positive	Negative		Positive	Negative
Derivative investments[1]	$ 37,924	$ 973	$ (591)	$ 41,665	$ 823	$ (1,138)
Fair value hedges	2,533	125	(64)	2,310	90	(50)
Cash flow hedges	96	20	(11)	92	19	(24)
Net investment hedges	3,164	511	(34)	3,193	450	(45)
Total	$ 43,717	$ 1,629	$ (700)	$ 47,260	$ 1,382	$ (1,257)

(1) Derivative investments are derivatives that have not been designated as hedges for accounting purposes.

Additional information on the derivatives designated as hedges for accounting purposes is included below.

Fair value and cash flow hedges

Results for the hedging relationships for the years ended December 31 are shown in the following table:

	2010	2009	2008
Fair value hedges			
Income (loss) arising from hedge ineffectiveness	$ (1)	$ 6	$ (4)
Cash flow hedges[1]			
Income (loss) due to amounts excluded from hedge effectiveness assessment	$ (2)	$ (3)	$ (6)

(1) Cash flow hedges include equity forwards hedging the variation in the cash flows associated with the anticipated payments under certain stock-based compensation plans expected to occur in 2011, 2012 and 2013. The amounts included in accumulated OCI related to the equity forwards are reclassified to net income as the liability is accrued for the stock-based compensation plan over the vesting period. We expect to reclassify a gain of $5 (gain of $2 in 2009) from accumulated OCI to net income within the next 12 months.

5.E Securities lending

We engage in securities lending to generate additional income. Certain securities from our 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 us. The fair value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the fair values fluctuate. Certain arrangements allow us to invest the cash collateral received for the securities loaned. It is our practice to obtain a guarantee from the lending agent against counterparty default, including non-cash collateral deficiency. As at December 31, 2010, we loaned securities, included in Invested assets, with a carrying value and fair value of approximately $555 ($785 in 2009) for which collateral held was $585 ($827 in 2009).

6. Financial instrument risk management

The significant risks related to financial instruments are credit risk, liquidity risk and market risk (currency, interest rate and equity). The following sections describe how we manage each of these risks.

Some of our financial instruments risk management policies and procedures are described in our 2010 Annual Management Discussion and Analysis (“MD&A”). The shaded text and tables in the Risk Management, Capital and Liquidity Management and Investment sections of the MD&A represent part of our disclosures on Credit Risk, Liquidity and Market risks in accordance with CICA Handbook Section 3862, *Financial Instruments – Disclosures*, and include discussions on how we measure our risk and our objectives, policies and methodologies for managing these risks. Therefore, the shaded text and tables represent an integral part of these Consolidated Financial Statements.

We use derivative instruments to manage risks related to interest rate, equity market and currency fluctuations and in replication strategies for permissible investments . We do not engage in speculative investment in derivatives. The gap in market sensitivities or exposures between liabilities and supporting assets is monitored and managed within defined tolerance limits by, where appropriate, the use of derivative instruments. Models and techniques are used by us to measure the continuing effectiveness of our risk management strategies.

6.A Credit risk

6.A.i Maximum exposure to credit risk

Our maximum credit exposure related to financial instruments is summarized in the following table. Maximum credit exposure is the carrying value of the asset net of any allowances for losses.

	2010	2009
Cash, cash equivalents and short-term securities	$ 8,487	$ 11,868
Held-for-trading bonds[1]	54,753	51,634
Available-for-sale bonds	10,752	9,673
Mortgages	13,021	13,776
Corporate loans	6,490	5,673
Derivative assets[2]	1,629	1,382
Other financial assets[3]	2,267	2,078
Total balance sheet maximum credit exposure	$ 97,399	$ 96,084
Off-balance sheet items		
Loan commitments[4]	$ 666	$ 446
Guarantees	31	45
Total off-balance sheet items	$ 697	$ 491

(1) In addition to the carrying value, credit exposure may be increased to the extent that the amounts recovered from default are insufficient to satisfy the actuarial liability cash flows that the assets are intended to support.
(2) The positive market value is 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.
(3) Other financial assets include accounts receivable and investment income due and accrued as shown in Note 8.
(4) Loan commitments include commitments to extend credit under commercial and residential mortgage loans and private bonds. Private bond commitments contain provisions that allow for withdrawal of the commitment if there is a deterioration in the credit quality of the borrower.

Collateral held and other credit enhancements

During the normal course of business, we invest in financial assets secured by real estate properties, pools of financial assets, third-party financial guarantees, credit insurance and other arrangements. In the case of derivatives, collateral is collected from the counterparty to manage the credit exposure according to the Credit Support Annex (“CSA”), which forms part of the International Swaps and Derivatives Association’s (“ISDA”) Master Agreement. It is our common practice to execute a CSA in conjunction with an ISDA Master Agreement.

As at December 31, 2010, we held collateral assets with a fair value of $928 ($568 as at December 31, 2009) under certain derivative contracts and we are usually permitted to sell or re-pledge this collateral. We have not sold or re-pledged any collateral. The assets pledged are primarily cash, US Treasuries, and other government securities. The terms and conditions related to the use of the collateral are consistent with industry practice.

6.A.ii Concentration risk

The shaded text and tables in the Investment section of the MD&A represent part of our disclosure on Concentration Risk. Therefore, these text and tables represent an integral part of our Consolidated Financial Statements for the years ended December 31, 2010 and December 31, 2009.

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics, such as groups of debtors in the same economic or geographic regions or in similar industries. The financial instrument issuers have similar economic characteristics so that their ability to meet contractual obligations may be impacted similarly by changes in the economic or political conditions. We manage this risk by appropriately diversifying our investment portfolio through the use of concentration limits. In particular, we maintain policies which set counterparty exposure limits to manage the credit exposure for investments in any single issuer or 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. Our mortgage and corporate loans are diversified by type and location and, for mortgage loans, by borrower.

6.A.iii Conctractual maturities of bonds, mortgages, corporate loans and derivatives

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. Actual maturities could differ from contractual maturities because of the borrower's right to call or extend or right to prepay obligations, with or without prepayment penalties.

	2010		
	Held-for-trading bonds	**Available-for-sale bonds**	**Total bonds**
Due in 1 year or less	**$ 3,930**	**$ 1,408**	**$ 5,338**
Due in years 2-5	**13,100**	**3,818**	**16,918**
Due in years 6-10	**11,566**	**2,358**	**13,924**
Due after 10 years	**26,157**	**3,168**	**29,325**
Total bonds	**$ 54,753**	**$ 10,752**	**$ 65,505**

	2009		
	Held-for-trading bonds	Available-for-sale bonds	Total bonds
Due in 1 year or less	$ 2,519	$ 504	$ 3,023
Due in years 2-5	12,393	2,675	15,068
Due in years 6-10	11,734	2,790	14,524
Due after 10 years	24,988	3,704	28,692
Total bonds	$ 51,634	$ 9,673	$ 61,307

As at December 31, the carrying value of scheduled mortgage and corporate loan maturities, before allowances for losses, are as follows:

	2010		
	Mortgages	**Corporate Loans**	**Total**
2011	**$ 1,337**	**$ 523**	**$ 1,860**
2012	**772**	**209**	**981**
2013	**1,063**	**607**	**1,670**
2014	**1,177**	**713**	**1,890**
2015	**1,375**	**807**	**2,182**
Thereafter	**7,485**	**3,659**	**11,144**
Total mortgages and corporate loans, before allowances for losses	**$ 13,209**	**$ 6,518**	**$ 19,727**

	2009		
	Mortgages	Corporate Loans	Total
2010	$ 1,276	$ 563	$ 1,839
2011	1,188	598	1,786
2012	777	394	1,171
2013	1,085	754	1,839
2014	1,227	655	1,882
Thereafter	8,329	2,719	11,048
Total mortgages and corporate loans, before allowances for losses	$ 13,882	$ 5,683	$ 19,565

Notional amounts of derivative financial instruments are the basis for calculating payments and are generally not the actual amounts exchanged. The following table provides the notional amounts of derivative instruments outstanding as at December 31 by type of derivative and term to maturity:

	2010				2009			
	Term to Maturity				Term to Maturity			
	Under 1 Year	1 to 5 Years	Over 5 Years	Total	Under 1 Year	1 to 5 Years	Over 5 Years	Total
Over-the-counter contracts:								
Interest rate contracts:								
Swap contracts	$ 1,311	$ 4,882	$ 11,486	$ 17,679	$ 2,304	$ 6,437	$ 12,389	$ 21,130
Options purchased	400	1,985	3,892	6,277	509	1,440	3,628	5,577
Options written	–	–	–	–	425	–	–	425
Foreign exchange contracts:								
Forward contracts	2,093	88	155	2,336	2,123	65	167	2,355
Swap contracts	758	3,495	4,894	9,147	432	3,250	4,771	8,453
Other contracts:								
Options purchased	1,695	212	–	1,907	2,829	425	–	3,254
Options written	–	–	–	–	1,319	–	–	1,319
Forward contracts	32	66	–	98	32	64	–	96
Swap contracts	234	69	–	303	185	104	–	289
Credit derivatives	–	110	10	120	–	116	10	126
Exchange-traded contracts:								
Interest rate contracts:								
Futures contracts	1,124	139	–	1,263	855	81	–	936
Foreign exchange contracts:								
Futures contracts	302	–	–	302	–	–	–	–
Other contracts:								
Futures contracts	3,590	–	–	3,590	3,298	–	–	3,298
Options purchased	607	88	–	695	2	–	–	2
Total notional amount	$ 12,146	$ 11,134	$ 20,437	$ 43,717	$ 14,313	$ 11,982	$ 20,965	$ 47,260

The following table provides the fair value of derivative instruments outstanding as at December 31 by term to maturity:

	2010				2009			
	Term to Maturity				Term to Maturity			
	Under 1 Year	1 to 5 Years	Over 5 Years	Total	Under 1 Year	1 to 5 Years	Over 5 Years	Total
Total asset derivatives	$ 156	$ 683	$ 790	$ 1,629	$ 176	$ 667	$ 539	$ 1,382
Total liability derivatives	$ (93)	$ (177)	$ (430)	$ (700)	$ (235)	$ (338)	$ (684)	$ (1,257)

6.A.iv Asset quality

Our accounting policies for the recording and assessing of impairment are described in Note 1. Details concerning the credit quality of financial instruments held and considered impaired or temporarily impaired as at the current balance sheet date are described in the following sections.

Bonds by credit rating

Investment grade bonds are those rated BBB and above. Our bond portfolio was 96.4% (95.6% in 2009) investment grade based on carrying value. The carrying value of bonds by rating as at December 31 is shown in the following table.

	2010			2009		
	Held-for-trading bonds	Available-for-sale bonds	Total	Held-for-trading bonds	Available-for-sale bonds	Total
Bonds by credit rating[1]						
AAA	$ 9,141	$ 3,155	$ 12,296	$ 8,973	$ 1,752	$ 10,725
AA	10,125	1,183	11,308	9,163	1,046	10,209
A	17,932	3,291	21,223	16,520	3,485	20,005
BBB	15,484	2,846	18,330	14,797	2,860	17,657
BB and lower	2,071	277	2,348	2,181	530	2,711
Total bonds	$ 54,753	$ 10,752	$ 65,505	$ 51,634	$ 9,673	$ 61,307

(1) Local currency denominated sovereign debts of certain developing countries, used in backing the local liabilities, have been classified as investment grade.

Derivative financial instruments by counterparty credit rating

Derivative instruments are either exchange-traded or over-the-counter contracts negotiated between counterparties. Since counterparty failure in an over-the-counter derivative transaction could render it ineffective for hedging purposes, we generally transact our

derivative contracts with highly rated counterparties. In limited circumstances, we will enter into transactions with lower rated counterparties if credit enhancement features are included. As at December 31, 2010, we held assets of $459 ($476 in 2009), pledged as collateral for derivative contracts. The assets pledged are cash, cash equivalents and short-term securities.

The following tables show the derivative financial instruments with a positive fair value as at December 31 split by counterparty credit rating.

	2010		
	Gross Positive Replacement Cost[1]	Impact of Master Netting Agreements[2]	Net Replacement Cost[3]
Over-the-counter contracts:			
AA	$ 746	$ (133)	$ 613
A	850	(168)	682
Exchange-traded	33	(4)	29
Total	$ 1,629	$ (305)	$ 1,324

	2009		
	Gross Positive Replacement Cost[1]	Impact of Master Netting Agreements[2]	Net Replacement Cost[3]
Over-the-counter contracts:			
AA	$ 599	$ (166)	$ 433
A	749	(388)	361
Exchange-traded	34	(7)	27
Total	$ 1,382	$ (561)	$ 821

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

(2) The credit risk associated with derivative assets subject to master netting arrangements is reduced by derivative liabilities due to the same counterparty in the event of default. Our overall exposure to credit risk reduced through master netting arrangements may change substantially following the reporting date as the exposure is affected by each transaction subject to the arrangement.

(3) Gross positive replacement cost after netting agreements.

Mortgages and corporate loans past due or impaired

The shaded text and tables in the Investment and Risk Management sections of the MD&A represent part of our disclosure on mortgages and corporate loans past due or impaired. Therefore, these text and tables represent an integral part of our Consolidated Financial Statements for the years ended December 31, 2010 and December 31, 2009.

Impaired mortgages and corporate loans of $8 as at December 31, 2010 ($9 of impaired mortgages as at December 31, 2009) do not have an allowance for losses because, at a minimum, either the fair value of the collateral or the expected future cash flows exceed the carrying value of the mortgage or loan.

The weighted average investment in impaired mortgages and corporate loans, before allowances for losses, was $420 as at December 31, 2010 ($222 in 2009). The carrying value of mortgages and corporate loans that were non-income producing for the preceding 12 months was $108 ($65 in 2009).

Changes in allowances for losses

The changes in the allowances for losses are as follows:

	Mortgages	Corporate Loans	Total
Balance, December 31, 2008	$ 13	$ 10	$ 23
Provision for losses	96	21	117
Write-offs, net of recoveries	–	(21)	(21)
Effect of changes in Currency exchange rates and other adjustments	(3)	–	(3)
Balance, December 31, 2009	106	10	116
Provision for losses	104	11	115
Write-offs, net of recoveries	(13)	–	(13)
Effect of changes in Currency exchange rates and other adjustments	(9)	7	(2)
Balance, December 31, 2010	$ 188	$ 28	$ 216

Restructured mortgages and corporate loans

Mortgages and corporate loans with a carrying value of $151 had their terms renegotiated during the year ended December 31, 2010 ($53 in 2009).

Possession of collateral/foreclosed assets

During 2010, we took possession of the real estate collateral of $22 which we held as security for mortgages ($5 of real estate held as collateral in 2009). These assets are either retained as real estate investments if they comply with our investment policy standards or sold.

Temporarily impaired available-for-sale assets

The available-for-sale assets disclosed in the following table exhibit evidence of impairment; however, the impairment loss has not been recognized in net income because it is considered temporary. Held-for-trading assets are excluded from the following table, as changes in fair value are recorded in our Consolidated Statements of Operations. Available-for-sale bonds, stocks and other invested assets have generally been identified as temporarily impaired if their amortized cost as at the end of the period was greater than their fair value, resulting in an unrealized loss. Unrealized losses may be due to interest rate fluctuations, widening of credit spreads, general depressed market prices due to current market conditions, and/or depressed fair values in sectors which have experienced unusually strong negative market reactions. In connection with our investment management practices and review of our investment holdings, it is believed that the contractual terms of these investments will be met and/or we have the ability to hold these investments until recovery in value.

	December 31, 2010		December 31, 2009	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale bonds	$ 2,755	$ 142	$ 3,369	$ 371
Available-for-sale stocks[1]	223	16	88	14
Available-for-sale other invested assets[2]	95	12	135	19
Total temporarily impaired financial assets	$ 3,073	$ 170	$ 3,592	$ 404

(1) These assets include available-for-sale private equities that are accounted for at cost with a carrying value of $19 as at December 31, 2010 ($2 as at December 31, 2009).

(2) These assets include available-for-sale limited partnerships and other invested assets that are accounted for at cost with a carrying value of $107 as at December 31, 2010 ($154 as at December 31, 2009).

Other-than-temporarily impaired available-for-sale assets

We wrote down $39 of impaired available-for-sale assets recorded at fair value during 2010 ($185 and $318 in 2009 and 2008). There were no write-downs during 2010 ($3 and $28 in 2009 and 2008) relating to impaired available-for-sale bonds that were part of fair value hedging relationships as described in Note 5D. These write-downs are included in Net gains (losses) on available-for-sale assets in our Consolidated Statements of Operations.

These assets were written down since the length of time that the fair value was less than the cost and the extent and nature of the loss indicated that the fair value would not recover.

We did not reverse any impairment on available-for-sale bonds during 2010 and 2009.

Impairment of held-for-trading assets

We generally maintain distinct asset portfolios for each line of business. Changes in the fair values of these assets are largely offset by changes in the fair value of actuarial liabilities, when there is an effective matching of assets and liabilities. When assets are designated as held-for-trading, the change in fair value arising from impairment is not required to be separately disclosed under Canadian GAAP. The reduction in fair values of held-for-trading assets attributable to impairment results in an increase in actuarial liabilities charged through our Consolidated Statement of Operations for the period.

Non-income producing bonds

The carrying value of non-income producing bonds for the preceding 12 months was $76 ($48 in 2009).

6.B Liquidity risk

Liquidity risk is the risk we will not be able to fund all cash outflow commitments as they fall due. We generally maintain a conservative liquidity position that exceeds anticipated demand liabilities. Our asset-liability management process supports our ability to maintain our financial position by ensuring that sufficient cash flow and liquid assets are available to cover our potential funding requirements. We invest in various types of assets with a view of matching them with our liabilities of various durations. To strengthen our liquidity further, we actively manage and monitor our capital and asset levels, diversification and credit quality of our investments and cash forecasts and actual amounts against established targets. We also maintain liquidity contingency plans for the management of liquidity in the event of a liquidity crisis.

In addition, we maintain standby credit facilities with a variety of banks. The agreements relating to our debt, letters of credit and lines of credit contain typical covenants regarding solvency, credit ratings and other such matters.

We manage liquidity risk through a variety of tools including liquidity policies and operating guidelines, liquidity contingency plans and quarterly stress testing.

Stress testing of our liquidity is performed by comparing liquidity coverage ratios under 1-month and 1-year stress scenarios to our policy thresholds. These liquidity ratios are calculated by dividing net liquidity adjusted assets by liquidity adjusted liabilities. A factor based approach is used for both assets and liabilities, whereby asset factors are applied to asset market values representing the net realizable value upon disposition, and liability factors are applied to the liabilities to reflect the amount which is demandable under the given stress scenarios. Fixed obligations are deducted directly from liquidity adjusted assets when calculating net liquidity adjusted assets as

payment of these amounts is more certain. These liquidity ratios are measured and managed at the business segment, and at our consolidated level. Our coverage ratios were higher than the policy thresholds as at December 31, 2010 and December 31, 2009.

7. Goodwill and intangible assets

7.A Goodwill

In addition to acquisitions and dispositions of subsidiaries, transactions with the non-controlling interests also result in increases and decreases to goodwill. There were no write-downs of goodwill due to impairment during 2010, 2009 and 2008.

Changes in goodwill of subsidiaries are as follows:

	SLF Canada	SLF U.S.	SLF Asia	Corporate	Total
Balance, January 1, 2009	$ 3,481	$ 1,897	$ 536	$ 684	$ 6,598
Acquisitions (Note 3)	–	–	–	216	216
Dispositions	–	–	–	(8)	(8)
Effect of changes in currency exchange rates	–	(257)	(73)	(57)	(387)
Balance, December 31, 2009	$ 3,481	$ 1,640	$ 463	$ 835	$ 6,419
Acquisitions	7	–	–	16	23
Dispositions (Note 3)	(1)	–	–	(319)	(320)
Effect of changes in currency exchange rates	–	(86)	(26)	(32)	(144)
Balance, December 31, 2010	$ 3,487	$ 1,554	$ 437	$ 500	$ 5,978

7.B Intangible assets

As at December 31, the components of the intangible assets are as follows:

	2010			2009		
	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Finite-life intangible assets:						
Sales potential of field force	$ 487	$ 102	$ 385	$ 491	$ 88	$ 403
Asset administration contracts	226	76	150	228	69	159
Software and other	167	45	122	144	32	112
	880	223	657	863	189	674
Indefinite-life intangible assets:						
Fund management contracts	231	–	231	241	–	241
State licenses	10	–	10	11	–	11
	241	–	241	252	–	252
Total intangible assets	$ 1,121	$ 223	$ 898	$ 1,115	$ 189	$ 926

The write-down of intangible assets due to impairment during 2010 was $7 ($Nil in 2009 and 2008). Amortization of intangible assets recorded in Operating expenses during the year was $40 ($34 in 2009 and $24 in 2008). We expect to record amortization expenses of $44 to Operating expenses each year for each of the next five years.

8. Other assets

Other assets as at December 31 consist of the following:

	2010	2009
Accounts receivable	$ 1,222	$ 978
Investment income due and accrued	1,045	1,100
Future income taxes (Note 19)	709	1,054
Deferred acquisition costs	187	167
Prepaid expenses	260	244
Premiums receivable	298	390
Accrued benefit asset (Note 22)	408	405
Capital assets	160	151
Other	13	28
Total other assets	$ 4,302	$ 4,517

Amortization of deferred acquisition costs charged to income amounted to $53 in 2010 ($48 and $50 in 2009 and 2008, respectively).

Capital assets are carried at a cost of $770 ($729 in 2009), less accumulated depreciation and amortization of $610 ($578 in 2009). Depreciation and amortization charged to Operating expenses in our Consolidated Statements of Operations totalled $53 in 2010 ($60 and $63 in 2009 and 2008, respectively).

9. Actuarial liabilities and other policy liabilities

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

We use 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 more uncertainty about the underlying best estimate assumption, a correspondingly larger provision is included in the actuarial liabilities.

In determining these provisions, we ensure:

- 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.

We generally maintain distinct asset portfolios for each line of business. To ensure the adequacy of liabilities, we do cash flow testing using several plausible scenarios for future interest rates and economic environments. 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.

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 $697 are included in Policyholder dividends and interest on claims and deposits in our Consolidated Statements of Operations ($818 in 2009 and $877 in 2008).

9.B Composition of actuarial liabilities and other policy liabilities

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

As at December 31, 2010	SLF Canada	SLF U.S.	SLF Asia	Corporate[1]	Total
Individual participating life	$ 15,821	$ 5,099	$ 3,503	$ 2,057	$ 26,480
Individual non-participating life	3,855	10,297	410	393	14,955
Group life	1,213	208	17	–	1,438
Individual annuities	9,416	8,946	–	4,312	22,674
Group annuities	6,570	2,754	303	–	9,627
Health insurance	6,390	1,079	1	112	7,582
Total actuarial liabilities	43,265	28,383	4,234	6,874	82,756
Add: Other policy liabilities [2]	616	592	90	309	1,607
Actuarial liabilities and other policy liabilities	$ 43,881	$ 28,975	$ 4,324	$ 7,183	$ 84,363

As at December 31, 2009	SLF Canada	SLF U.S.	SLF Asia	Corporate[1]	Total
Individual participating life[3]	$ 14,933	$ 5,291	$ 3,034	$ 2,346	$ 25,604
Individual non-participating life	3,017	9,317	264	988	13,586
Group life	1,233	215	16	9	1,473
Individual annuities	9,323	10,538	–	4,392	24,253
Group annuities	6,498	3,814	372	–	10,684
Health insurance	5,938	1,077	1	114	7,130
Total actuarial liabilities	40,942	30,252	3,687	7,849	82,730
Add: Other policy liabilities [2]	641	663	77	647	2,028
Actuarial liabilities and other policy liabilities	$ 41,583	$ 30,915	$ 3,764	$ 8,496	$ 84,758

(1) Primarily business from the U.K., life retrocession and run-off reinsurance operations. Includes U.K. of $1,979 ($2,257 in 2009) for Individual participating life; $(10) ($(5) in 2009) for Individual non-participating life; $4,312 ($4,393 in 2009) for Individual annuities and $117 ($121 in 2009) for other policy liabilities.

(2) Consists of policy benefits payable, provisions for unreported claims, provisions for policyholder dividends, and provisions for experience rating refunds.

(3) SLF Canada – Individual participating life balance has been restated. Refer to Note 2.

9.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:

As at December 31, 2010	Bonds		Stocks		Mortgages and corporate loans	Real estate	Other	Total
	Held-for-trading	Available-for-sale	Held-for-trading	Available-for-sale				
Individual participating life	$ 15,269	$ –	$ 3,033	$ 16	$ 4,076	$ 3,230	$ 4,155	$ 29,779
Individual non-participating life	10,029	420	1,000	20	2,983	353	4,843	19,648
Group life	1,139	–	3	–	995	28	(43)	2,122
Individual annuities	17,398	55	273	–	4,792	9	1,306	23,833
Group annuities	5,630	211	78	4	2,917	161	1,267	10,268
Health insurance	4,787	–	35	–	3,288	117	757	8,984
Equity and other	501	10,066	2	768	460	1,021	13,407	26,225
Total assets	$ 54,753	$ 10,752	$ 4,424	$ 808	$ 19,511	$ 4,919	$ 25,692	$ 120,859

As at December 31, 2009	Bonds		Stocks		Mortgages and corporate loans	Real estate	Other	Total
	Held-for-trading	Available-for-sale	Held-for-trading	Available-for-sale				
Individual participating life[1]	$ 14,062	$ –	$ 3,143	$ 13	$ 4,124	$ 3,194	$ 4,204	$ 28,740
Individual non-participating life	8,321	442	840	4	2,730	299	5,522	18,158
Group life	1,125	–	3	–	1,007	23	18	2,176
Individual annuities	17,400	55	246	1	5,061	–	2,978	25,741
Group annuities	6,089	277	82	4	3,073	155	1,799	11,479
Health insurance	4,503	–	17	1	3,122	137	733	8,513
Equity and other[1]	134	8,899	–	612	332	1,069	14,238	25,284
Total assets	$ 51,634	$ 9,673	$ 4,331	$ 635	$ 19,449	$ 4,877	$ 29,492	$ 120,091

(1) These balances have been restated. Refer to Note 2.

9.D Changes in actuarial liabilities

Changes in actuarial liabilities during the years ended December 31 are as follows:

	2010	2009
Actuarial liabilities, January 1[1]	$ 82,730	$ 79,361
Change in liabilities on in-force business[2]	153	2,551
Liabilities arising from new policies	2,664	4,022
Changes in assumptions or methodology[3]	92	1,124
Increase (decrease) in actuarial liabilities	2,909	7,697
Actuarial liabilities before the following:	85,639	87,058
Acquisition (Note 3)	–	986
Dispositions (Note 3)	(569)	–
Effect of changes in currency exchange rates	(2,314)	(5,314)
Actuarial liabilities, December 31	82,756	82,730
Add: Other policy liabilities	1,607	2,028
Actuarial liabilities and other policy liabilities, December 31	$ 84,363	$ 84,758

(1) This balance has been restated. Refer to Note 2.
(2) Due to the enactment of the Canadian tax rules relating to CICA Handbook Section 3855, an increase in actuarial liabilities of $135 was recorded during the first quarter of 2009. Prior to the enactment of these tax rules, actuarial liabilities included an estimated adjustment to account for income taxes as if these tax rules had, at the time, been enacted.
(3) See tables below for 2010 and 2009 changes:

Changes in assumptions or methodology – 2010:

Assumption or methodology	Policy liabilities increase (decrease) pre-tax	Description
Mortality / morbidity	$ (249)	Largely due to favourable changes to the mortality basis in Individual Insurance in SLF U.S., Reinsurance in Corporate and mortality/morbidity in our Group businesses in SLF Canada and SLF U.S.
Lapses and other policyholder behaviour	269	Reflects the impact of higher persistency as a result of low interest rates in Individual Insurance in SLF U.S., as well as higher lapse rates on term insurance renewals in SLF Canada.
Expense	52	Impact of reflecting recent experience studies across the Company.
Investment returns	80	Primarily from impact of Company wide revisions to equity and interest rate return assumptions.
Other	(60)	Primarily model refinements to improve the projection of future cash flows.
Total	$ 92	

Changes in assumptions or methodology – 2009:

Assumption or methodology	Policy liabilities increase (decrease) pre-tax	Description
Mortality / morbidity	$ (137)	Improved mortality experience on both life insurance and savings products.
Lapses and other policyholder behaviour	375	Updates to policyholder behaviour assumptions in our individual insurance business.
Expense	119	Impact of reflecting recent experience studies in several of our businesses.
Investment returns	872	Driven primarily from negative impact of the implementation of equity- and interest rate-related actuarial assumption updates in the third quarter of 2009.
Other	(105)	
Total	$ 1,124	

9.E Fair value of actuarial liabilities, future incomes taxes and deferred net realized gains

Changes in the fair value of assets backing actuarial and other policy liabilities would be substantially offset by a corresponding change in the fair value of the liabilities (including actuarial liabilities and related future income taxes and deferred net realized gains), resulting in limited impact on equity.

9.F Assumptions and measurement uncertainty

The following section includes measures of our estimated net income sensitivity to changes in best estimate assumptions in the actuarial liabilities, based on a starting point and business mix as of December 31, 2010.

Mortality

Mortality refers to the rates at which death occurs for defined groups of people. Insurance mortality assumptions are generally based on our five-year average experience. For annuities, our experience is generally combined with industry experience, since our own experience is not sufficient to be statistically valid. In general, assumed mortality rates for life insurance contracts do not reflect any future expected improvement, except in some instances where the net effect of reflecting future improvement increases the policy liabilities. For annuities where lower mortality rates result in an increase in liabilities, assumed future mortality rates are adjusted to reflect estimated future improvements.

For life insurance products, a 2% increase in the best estimate assumption would decrease net income by about $40. For annuity products for which lower mortality would be financially adverse to us, a 2% decrease in the mortality assumption would decrease net income by about $85.

Morbidity

Morbidity refers to both the rates of accident or sickness and the rates of recovery therefrom. Most of our disability insurance is marketed on a group basis. In Canada and in Asia, we offer critical illness policies on an individual basis, and in Canada, we offer long-term care on an individual basis. Medical stop-loss insurance is offered on a group basis in the United States and Canada. In Canada, group morbidity assumptions are based on our five-year average experience, modified to reflect the trend in recovery rates. For long-term care and critical illness insurance, assumptions are developed in collaboration with our reinsurers and are largely based on their experience. In the United States, our 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 experience is limited. For products where the morbidity is a significant assumption, a 5% adverse change in that assumption would reduce net income by about $110.

Asset default

Assumptions related to investment returns include expected future credit losses on fixed income investments. Our past experience and industry experience, as well as specific reviews of the current portfolio, are used to project credit losses.

In addition to the allowances for losses on invested assets outlined in Note 6, the actuarial liabilities include an amount of $2,915 determined on a pre-tax basis to provide for possible future asset defaults and loss of asset value on current assets and on future purchases. The amount excludes defaults that can be passed through to participating policyholders and excludes provisions for losses in the value of equity and real estate assets supporting actuarial liabilities.

Equity market movements and interest rate

The descriptions of the sensitivities that apply to Equity Market Movements and Interest Rate are included in Note 6.

Future equity returns

A 100 basis point reduction in assumed future equity and real estate returns would result in an estimated decrease in net income of about $350 to $450.

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 our five-year average 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. Industry experience is considered for certain products where our experience is not sufficient to be statistically valid.

For individual life insurance products where fewer terminations would be financially adverse to us, a 10% decrease in the termination rate assumption would decrease net income by about $225. For products where more terminations would be financially adverse to us, a 10% increase in the termination rate assumption would decrease net income by about $80.

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 our recent experience using an internal expense allocation methodology. Future expense assumptions reflect inflation. The sensitivity of actuarial liabilities to a 5% increase in unit expenses would result in a decrease in net income of about $140.

9.G Reinsurance agreements

Reinsurance is used primarily to limit exposure to large losses. We have 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, we retain primary responsibility to the policyholders. In addition, we assumed by retrocession a substantial amount of business from reinsurers which was sold on December 31, 2010 as described further in Note 3. The effect of these reinsurance arrangements on premiums and payments to policyholders, beneficiaries and depositors is summarized as follows:

For the years ended December 31	**2010**	2009	2008
Premiums:			
Direct premiums	**$ 14,324**	$ 16,193	$ 14,124
Reinsurance assumed	**554**	797	585
Reinsurance ceded	**(1,380)**	(1,480)	(1,122)
	$ 13,498	$ 15,510	$ 13,587
Payments to policyholders, beneficiaries and depositors:			
Direct payments	**$ 13,423**	$ 14,112	$ 13,863
Reinsurance assumed	**667**	689	657
Reinsurance ceded	**(1,012)**	(1,344)	(745)
	$ 13,078	$ 13,457	$ 13,775

Actuarial liabilities as at December 31 are shown net of ceded reinsurance of $3,158 in 2010 ($2,532 in 2009).

9.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 date. Examination of supporting data for accuracy and completeness and analysis of our 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 2010 analysis tested our capital adequacy until December 31, 2014, under various adverse economic and business conditions. The Appointed Actuary reviews the calculation of our Canadian capital and surplus requirements. In addition, our foreign operations and foreign subsidiaries must comply with local capital requirements in each of the jurisdictions in which they operate. These conditions affect our ability to distribute our retained earnings. We calculated an appropriation of retained earnings of $4,306 ($4,829 in 2009).

10. Capital management

Our capital base is structured to exceed regulatory and internal capital targets and maintain strong credit ratings while maintaining a capital efficient structure and desired capital ratios. We strive to achieve an optimal capital structure by balancing the use of debt and equity financing. Capital is managed both on a consolidated basis under principles that consider all the risks associated with the business, as well as at the business group level under the principles appropriate to the jurisdiction in which we operate. We manage the capital for all of our subsidiaries in a manner commensurate with their individual risk profiles.

The Board is responsible for the annual review and approval of our capital plan. The capital risk policy establishes policies, operating guidelines and procedures that govern the management of capital. The Risk Review Committee of the Board of Directors reviews and approves SLF Inc.'s capital risk policy annually. Corporate Treasury and Risk Management are responsible for the design and implementation of the capital risk policy.

This policy is designed to ensure that adequate capital is maintained to provide the flexibility necessary to take advantage of growth opportunities, to support the risks associated with our businesses and to optimize return to our shareholders. This policy is also intended to provide an appropriate level of risk management over capital adequacy risk, which is defined as the risk that capital is not or will not be sufficient to withstand adverse economic conditions, to maintain financial strength or to allow us and our subsidiaries to take advantage of opportunities for expansion.

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 or the risk profile of Canadian life insurers changes or to reflect other risks. SLF Inc. was above its minimum internal targets as at December 31, 2010 and December 31, 2009.

Sun Life Assurance is subject to the Minimum Continuing Capital Surplus Requirements ("MCCSR") capital rules for a life insurance company in Canada. We generally expect to maintain an MCCSR ratio for Sun Life Assurance at or above 200%. From time to time, during adverse economic conditions and periods of high market volatility, Sun Life Assurance may maintain an MCCSR ratio in the range of 180% to 200%. Sun Life Assurance's MCCSR ratio as at December 31, 2010 and December 31, 2009, was above the minimum levels that would require any regulatory or corrective action. 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. Our 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"), which measures exposures to investment risk, insurance risk, interest rate and other market risks and general business risk. The risk-based capital of Sun Life Assurance Company of Canada (U.S.) was above the minimum regulatory level as at December 31, 2010 and December 31, 2009.

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. We maintained capital levels above minimum local requirements as at December 31, 2010 and December 31, 2009.

Our capital base consists mainly of common shareholders' equity, participating policyholders' equity, preferred shareholders' equity and certain other capital securities (that qualify as regulatory capital).

As at December 31	2010	2009
Equity:		
Participating policyholders' equity	$ 114	$ 107
Preferred shareholders' equity	2,015	1,741
Common shareholders' equity [1]	16,230	15,489
Total equity	$ 18,359	$ 17,337
Other capital securities:		
Subordinated debt	$ 2,741	$ 3,048
Trust Capital Securities [2]	1,644	1,644
Total other capital securities	4,385	4,692
Total capital	$ 22,744	$ 22,029

(1) Unrealized gains and losses on cash flow hedges and available-for-sale debt securities are excluded from regulatory capital.
(2) Trust Capital Securities are Sun Life ExchangEable Capital Securities issued by Sun Life Capital Trust and Sun Life Capital Trust II (Note 11). These trusts are VIEs that are not consolidated by us.

The significant changes in capital are included in the following notes on Senior debentures, Subordinated debt and Share capital.

11. Senior debentures

The following obligations are included in Senior debentures as at December 31:

	Currency of Borrowing	Interest Rate	Earliest Par Call Date	Maturity	2010	2009
Sun Life Assurance debentures[1]						
Issued to Sun Life Capital Trust ("SLCT I")						
Series A issued October 19, 2001	Cdn. dollars	6.87%	December 31, 2011[2]	2031	$ 960	$ 960
Series B issued June 25, 2002	Cdn. dollars	7.09%	June 30, 2032[2]	2052	200	200
Issued to Sun Life Capital Trust II ("SLCT II")						
Series C issued November 20, 2009[3]	Cdn. dollars	6.06%	December 31, 2019[4]	2108	500	500
SLF Inc. senior unsecured debentures						
Series A issued November 23, 2005[5]	Cdn. dollars	4.80%	November 23, 2015[6]	2035	600	600
Series B issued March 13, 2006[7]	Cdn. dollars	4.95%	June 1, 2016[6]	2036	700	700
Series B issued February 26, 2007[7]	Cdn. dollars	4.95%	June 1, 2016[6]	2036	251	251
Series C issued July 11, 2006[8]	Cdn. dollars	5.00%	July 11, 2011[6]	2031	300	300
Series D issued June 30, 2009	Cdn. dollars	5.70%	n/a[9]	2019	300	300
					$ 3,811	$ 3,811
Fair value					$ 4,021	$ 3,987

(1) The Sun Life Assurance debentures were issued to SLCT I and SLCT II, which are VIEs that are not consolidated by us. SLCT I and SLCT II issued innovative capital securities and used the proceeds from the issuances to purchase the Sun Life Assurance debentures. The Sun Life Assurance debentures qualify as regulatory capital, and are further described in this Note.

(2) This debenture may be redeemed, at the option of the issuer. Prior to the date noted, the redemption price is the greater of par and a price based on the yield of a corresponding Government of Canada bond; from the date noted, the redemption price is par. This debenture may also be redeemed at par at any time upon the occurrence of a Regulatory Event or Tax Event, as described in the debenture. Redemption of this debenture is subject to regulatory approval.

(3) On December 31, 2019, and every fifth anniversary thereafter ("Interest Reset Date"), the interest rate will reset to an annual rate equal to the five-year Government of Canada bond yield plus 3.60%.

(4) This debenture may be redeemed on or after December 31, 2014, at the option of the issuer. Prior to the date noted or on any date that is not an Interest Reset Date, the redemption price is the greater of par and a price based on the yield of a corresponding Government of Canada bond; the redemption price is par if redemption occurs on an Interest Reset Date. This debenture may also be redeemed at par at any time upon the occurrence of a Regulatory Event or Tax Event, as described in the debenture. Redemption of this debenture is subject to regulatory approval.

(5) From November 23, 2015, interest is payable at 1% over the 90-day Bankers' Acceptance Rate.

(6) The relevant debenture may be redeemed, at par, on an interest payment date on or after the date noted, at the option of the issuer.

(7) From June 1, 2016, interest is payable at 1% over the 90-day Bankers' Acceptance Rate.

(8) From July 11, 2011, interest is payable at 1% over the 90-day Bankers' Acceptance Rate.

(9) The relevant debenture may be redeemed, at the option of the issuer. The redemption price is the greater of par and a price based on the yield of a corresponding Government of Canada bond.

Fair value is based on market price for the same or similar instruments as appropriate. Interest expense for senior debentures was $218, $182 and $170 for 2010, 2009 and 2008, respectively.

All senior unsecured debentures of SLF Inc. are direct senior unsecured obligations of SLF Inc. and rank equally with all other unsecured and unsubordinated indebtedness of SLF Inc.

Trust Capital Securities

Innovative capital instruments, Sun Life ExchangEable Capital Securities ("SLEECS"), have been issued through SLCT I and SLCT II (the "SL Capital Trusts"), special purpose entities established as trusts under the laws of Ontario.

SLCT I issued Sun Life ExchangEable Securities – Series A ("SLEECS A") and Sun Life ExchangEable Securities – Series B ("SLEECS B"), which are classes of units that represent an undivided beneficial ownership interest in the assets of that trust. SLEECS A and SLEECS B are non-voting except in certain limited circumstances. Holders of SLEECS A and SLEECS B are eligible to receive semi-annual non-cumulative fixed cash distributions. SLCT II issued Sun Life ExchangEable Capital Securities – Series 2009-1 ("SLEECS 2009-1"), which are subordinated unsecured debt obligations. Holders of SLEECS 2009-1 are eligible to receive semi-annual interest payments. The proceeds of the issuances of SLEECS A, SLEECS B and SLEECS 2009-1 were used by the SL Capital Trusts to purchase senior debentures of Sun Life Assurance.

The SLEECS are structured with the intention of achieving Tier 1 regulatory capital treatment for SLF Inc. and Sun Life Assurance and, as such, have features of equity capital. No interest payments or distributions will be paid in cash by the SL Capital Trusts on the SLEECS if Sun Life Assurance fails to declare regular dividends (i) on its Class B Non-Cumulative Preferred Shares Series A, or (ii) on its public preferred shares, if any are outstanding ("Missed Dividend Event"). In the case of the SLEECS 2009-1, if a Missed Dividend Event occurs or if an interest payment is not made in cash on the SLEECS 2009-1 for any reason, including at the election of Sun Life Assurance, holders of the SLEECS 2009-1 will be required to invest interest paid on the SLEECS 2009-1 in non-cumulative perpetual preferred shares of Sun Life Assurance. In the case of the SLEECS A and SLEECS B, if a Missed Dividend Event occurs, the net distributable funds of SLCT I will be distributed to Sun Life Assurance as the holder of Special Trust Securities of that trust. If the SL Capital Trusts fail to pay in cash the semi-annual interest payments or distributions on the SLEECS in full for any reason other than a Missed Dividend Event, then, for a specified period of time, Sun Life Assurance will not declare dividends of any kind on any of its public preferred shares, and if no such public preferred shares are outstanding, SLF Inc. will not declare dividends of any kind on any of its preferred shares or common shares.

Each SLEECS A or SLEECS B and each $1,000 principal amount of SLEECS 2009-1 will be automatically exchanged for 40 non-cumulative perpetual preferred shares of Sun Life Assurance if any one of the following events occurs: (i) proceedings are commenced or an order is made for the winding-up of Sun Life Assurance; (ii) OSFI takes control of Sun Life Assurance or its assets; (iii) Sun Life Assurance's Tier 1 capital ratio is less than 75% or its MCCSR ratio is less than 120%; or (iv) OSFI directs Sun Life Assurance to increase its capital or provide additional liquidity and Sun Life Assurance either fails to comply with such direction or elects to have the SLEECS automatically exchanged ("Automatic Exchange Event"). Upon an Automatic Exchange Event, former holders of the SLEECS will cease to have any claim or entitlement to distributions, interest or principal against the issuing SL Capital Trust and will rank as preferred shareholders of Sun Life Assurance in a liquidation of Sun Life Assurance.

According to OSFI guidelines, innovative capital instruments can comprise up to 15% of net Tier 1 capital with an additional 5% eligible for Tier 2B capital. As at December 31, 2010, for regulatory capital purposes of Sun Life Assurance, $1,442 (2009 – $1,300, 2008 –$1,150) represents Tier 1 capital, and $202 (2009 – $344, 2008 – $nil) represents Tier 2B capital.

The SL Capital Trusts are variable interest entities under CICA Handbook Accounting Guideline 15, *Consolidation of Variable Interest Entities* (AcG-15). SLF Inc. is not exposed to the majority of any SL Capital Trust expected losses or expected residual returns and therefore is not the primary beneficiary under AcG-15. Accordingly, SLF Inc. does not consolidate the SL Capital Trusts, and the SLEECS are not reported on our Consolidated Balance Sheets of SLF Inc. However, the senior debentures issued by Sun Life Assurance to the SL Capital Trusts are reported under Senior Debentures and interest expense is recognized on the senior debentures.

The table below presents additional significant terms and conditions of the SLEECS.

Issuer	Issuance date	Distribution or interest payment dates	Annual yield	Redemption date at the issuer's option	Conversion date at the holder's option	**2010 Principal amount**	2009 Principal amount	2008 Principal amount
Sun Life Capital Trust[1],[2],[3],[4]								
950 SLEECS A	October 19, 2001	June 30, December 31	6.865%	December 31, 2006	Any time	**$ 950**	$ 950	$ 950
200 SLEECS B	June 25, 2002	June 30, December 31	7.093%	June 30, 2007	Any time	**$ 200**	$ 200	$ 200
						$ 1,150	$ 1,150	$ 1,150
Sun Life Capital Trust II[1],[2]								
500 SLEECS 2009-1	November 20, 2009	June 30, December 31	5.863%[5]	December 31, 2014	No conversion option	**$ 500**	$ 500	–

(1) Subject to the approval of OSFI, (i) the SL Capital Trusts may, in whole or in part, on the redemption date specified above or on any distribution date thereafter, or in the case of SLCT II, on any date thereafter, redeem any outstanding SLEECS without the consent of the holders, and (ii) upon occurrence of a regulatory event or a tax event (as defined), prior to the redemption date specified above, the SL Capital Trusts may redeem all, but not part of, any class of SLEECS without the consent of the holders.

(2) The SLEECS A may be redeemed for cash equivalent to (i) the greater of the Early Redemption Price or the Redemption Price if the redemption occurs prior to December 31, 2011 or (ii) the Redemption Price if the redemption occurs on or after December 31, 2011. The SLEECS B may be redeemed for cash equivalent to (i) the greater of the Early Redemption Price or the Redemption Price if the redemption occurs prior to June 30, 2032 or (ii) the Redemption Price if the redemption occurs on or after June 30, 2032. Redemption Price refers to an amount equal to $1,000 plus the unpaid distributions, other than unpaid distributions resulting from a Missed Dividend Event, to the redemption date. Early Redemption Price refers to the price calculated to provide an annual yield, equal to the yield of a Government of Canada bond issued on the redemption date that (i) in the case of the SLEECS A, has a maturity date of December 31, 2011, plus 37 basis points, or (ii) in the case of the SLEECS B, has a maturity date of June 30, 2032, plus 32 basis points, and in each case plus the unpaid distributions, other than unpaid distributions resulting from a Missed Dividend Event, to the redemption date. The SLEECS 2009-1 may be redeemed for cash equivalent to, on any day that is not an Interest Rate Reset Date, accrued and unpaid interest on the SLEECS 2009-1 plus the greater of par and a price calculated to provide an annual yield equal to the yield of a Government of Canada bond maturing on the next Interest Reset Date plus (i) 0.60% if the redemption date is prior to December 31, 2019 or (ii) 1.20% if the redemption date is any time after December 31, 2019. On an Interest Rate Reset Date, the redemption price is equal to par plus accrued and unpaid interest on the SLEECS 2009-1.

(3) The non-cumulative perpetual preferred shares of Sun Life Assurance issued upon an Automatic Exchange Event in respect of the SLEECS A and SLEECS B will become convertible, at the option of the holder, into a variable number of common shares of SLF Inc. on distribution dates on or after June 30, 2012 in respect of the SLEECS A and on distribution dates on or after December 31, 2032 in respect of the SLEECS B.

(4) Holders of SLEECS A and SLEECS B may exchange, at any time, all or part of their holdings of SLEECS A or SLEECS B at a price for each SLEECS of 40 non-cumulative perpetual preferred shares of Sun Life Assurance. SLCT I will have the right, at any time before the exchange is completed, to arrange for a substituted purchaser to purchase SLEECS tendered for surrender to SLCT I so long as the holder of the SLEECS so tendered has not withheld consent to the purchase of its SLEECS. Any non-cumulative perpetual preferred shares issued in respect of an exchange by the holders of SLEECS A or SLEECS B will become convertible, at the option of the holder, into a variable number of common shares of SLF Inc. on distribution dates on or after June 30, 2012 in respect of the SLEECS A and on distribution dates on or after December 31, 2032 in respect of the SLEECS B.

(5) Holders of SLEECS 2009-1 are eligible to receive semi-annual interest payments at a fixed rate until December 31, 2019. The interest rate on the SLEECS 2009-1 will reset on December 31, 2019 and every fifth anniversary thereafter to equal the five-year Government of Canada bond yield plus 3.40%.

12. Other liabilities

12.A Composition of other liabilities

Other liabilities as at December 31 consist of the following:

	2010	2009
Accounts payable	$ 1,586	$ 1,313
Bank overdrafts	209	20
Bond repurchase agreements	994	1,006
Accrued expenses and taxes	821	566
Borrowed funds	280	321
Senior financing	1,385	1,383
Future income taxes (Note 19)	80	58
Accrued benefit liability (Note 22)	466	473
Other	341	292
Total other liabilities	$ 6,162	$ 5,432

12.B Bond repurchase agreements

We enter into bond repurchase agreements for operational funding and liquidity purposes. Bond repurchase agreements have maturities ranging from 4 to 82 days, averaging 54 days, and bear interest at rates averaging 1.06% as at December 31, 2010 (0.28% in 2009). As at December 31, 2010, we had assets with a total fair value of $994 ($1,006 in 2009), pledged as collateral for the bond repurchase agreements.

12.C Borrowed funds

The following obligations as at December 31 are included in borrowed funds in the table in Note 12A.

	Currency of borrowing	Maturity	2010	2009
Encumbrances on real estate				
	Cdn. dollars	2011-2028	$ 160	$ 184
	U.S. dollars	2011-2028	120	137
Total borrowed funds			$ 280	$ 321

The aggregate maturities of encumbrances on real estate are included in Note 6B.

Interest expense for the borrowed funds was $17, $20 and $22 for 2010, 2009 and 2008, respectively.

12.D Senior financing

On November 8, 2007, a VIE consolidated by SLF Inc. issued a U.S. $1,000 variable principal floating rate certificate (the “Certificate”) to a financial institution (the “Lender”). At the same time, Sun Life Assurance Company of Canada-U.S. Operations Holdings, Inc. (“U.S. Holdings”), a subsidiary of SLF Inc., entered into an agreement with the Lender, pursuant to which U.S. Holdings will bear the ultimate obligation to repay the outstanding principal amount of the Certificate and be obligated to make quarterly interest payments at three-month LIBOR plus a fixed spread. The VIE issued additional certificates after the initial issuance in subsequent years, totaling to U.S. $390, of which U.S. $75 and U.S. $200 of certificates during 2010 and 2009, respectively. Total collateral posted per the financing agreement was U.S. $11 and U.S. $25 at December 31, 2010 and December 31, 2009, respectively.

The maximum capacity of this agreement is U.S. $2,500. The agreement expires on November 8, 2037 and the maturity date may be extended annually for an additional one-year period upon the mutual agreement of the parties, provided such date is not beyond November 8, 2067.

The agreement could be cancelled or unwound at the option of U.S. Holdings in whole or in part from time to time, or in whole under certain events. If the agreement is cancelled before November 8, 2015, U. S. Holdings may be required to pay a make-whole amount based on the present value of expected quarterly payments between the cancellation date and November 8, 2015.

For the year ended December 31, 2010, we recorded $14 of interest expense relating to this obligation ($22 and $48 in 2009 and 2008, respectively). The fair value of the obligation is $1,010 ($1,069 in 2009), based on market prices for the same or similar instruments as appropriate.

13. Subordinated debt

The following obligations are included in Subordinated debt as at December 31 and qualify as capital for Canadian regulatory purposes:

	Currency	Interest Rate	Earliest Par Call date[1]	Maturity	2010	2009
Sun Life Assurance:						
Issued May 15, 1998[2]	Cdn. dollars	6.30%	–	2028	$ 150	$ 150
Issued October 12, 2000[3]	Cdn. dollars	6.65%	October 12, 2010	2015	–	300
Issued June 25, 2002[4]	Cdn. dollars	6.15%	June 30, 2012	2022	800	800
Sun Life Financial Inc.:						
Issued May 29, 2007[5]	Cdn. dollars	5.40%	May 29, 2037	2042	398	398
Issued January 30, 2008[6]	Cdn. dollars	5.59%	January 30, 2018	2023	398	398
Issued June 26, 2008[7]	Cdn. dollars	5.12%	June 26, 2013	2018	349	348
Issued March 31, 2009[8]	Cdn. dollars	7.90%	March 31, 2014	2019	497	496
Sun Canada Financial:						
Issued December 15, 1995[9]	U.S. dollars	7.25%	n/a	2015	149	158
Total					$ 2,741	$ 3,048
Fair value					$ 2,874	$ 3,202

(1) The relevant debenture may be redeemed, at the option of the issuer. Prior to the date noted, the redemption price is the greater of par and a price based on the yield of a corresponding Government of Canada bond; from the date noted, the redemption price is par and redemption may only occur on a scheduled interest payment date. Redemption of all subordinated debentures is subject to regulatory approval. The notes issued by Sun Canada Financial are not redeemable prior to maturity.

(2) Designated as 6.30% Debentures, Series 2, due 2028. Issued by The Mutual Life Assurance Company of Canada, which thereafter changed its name to Clarica Life Insurance Company ("Clarica"). Clarica was amalgamated with Sun Life Assurance effective December 31, 2002.

(3) Designated as 6.65% Debentures, Series 3, due 2015. Issued by Clarica, and redeemed on October 12, 2010.

(4) Designated as 6.15% Debentures due June 30, 2022. From June 30, 2012, interest is payable at 1.54% over the 90-day Bankers' Acceptance Rate.

(5) Designated as Series 2007-1 Subordinated Unsecured 5.40% Fixed/Floating Debentures due 2042. From May 29, 2037, interest is payable at 1.00% over the 90-day Bankers' Acceptance Rate.

(6) Designated as Series 2008-1 Subordinated Unsecured 5.59% Fixed/Floating Debentures due 2023. From January 30, 2018, interest is payable at 2.10% over the 90-day Bankers' Acceptance Rate.

(7) Designated as Series 2008-2 Subordinated Unsecured 5.12% Fixed/Floating Debentures due 2018. From June 26, 2013, interest is payable at 2.00% over the 90-day Bankers' Acceptance Rate.

(8) Designated as Series 2009-1 Subordinated Unsecured 7.90% Fixed/Floating Debentures due 2019. From March 31, 2014, interest is payable at 7.15% over the 90-day Bankers' Acceptance Rate.

(9) Designated as 7¼% Subordinated Notes due December 15, 2015.

Fair value is based on market prices for the same or similar instruments as appropriate. Interest expense on subordinated debt was $188, $183 and $142 for 2010, 2009 and 2008, respectively.

14. Non-controlling interests in subsidiaries

Non-controlling interests in subsidiaries in our Consolidated Balance Sheets and Non-controlling interests in net income of subsidiaries in our Consolidated Statements of Operations for 2010, 2009 and 2008, consist of non-controlling interests in MFS and McLean Budden Limited.

15. Share capital

The authorized share capital of SLF 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 SLF 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 nine series of Class A non-voting preferred shares, seven of which are outstanding.

The common and preferred shares qualify as capital for Canadian regulatory purposes, and are included in Note 10.

15.A Common Shares

The changes in shares issued and outstanding common shares for the year ended December 31 are as follows:

	2010		2009		2008	
Common shares (in millions of shares)	**Number of shares**	**Amount**	Number of shares	Amount	Number of shares	Amount
Balance, January 1	**564**	**$ 7,126**	560	$ 6,983	564	$ 7,033
Stock options exercised (Note 18)	**1**	**18**	–	7	1	10
Common shares purchased for cancellation [1]	**–**	**–**	–	–	(5)	(60)
Shares issued under dividend reinvestment and share purchase plan[2]	**9**	**263**	4	136	–	–
Balance, December 31	**574**	**$ 7,407**	564	$ 7,126	560	$ 6,983

(1) SLF Inc. purchased and cancelled common shares under a normal course issuer bid program during 2008. Under this program, SLF Inc. purchased common shares for cancellation through the facilities of the Toronto Stock Exchange ("TSX"). Common shares were repurchased at an average price of $45.30 per share for a total amount of $217, $60 of which was allocated to common shares with the remaining $157 allocated to retained earnings in our Consolidated Statement of Equity. The amount recorded to common shares is based on the average cost per common share.

(2) Under SLF Inc.'s Canadian Dividend Reinvestment and Share Purchase Plan, Canadian-resident common and preferred shareholders may choose to have their dividends automatically reinvested in common shares and may also purchase common shares for cash. For dividend reinvestments, SLF Inc. may, at its option, issue common shares from treasury at a discount of up to 5% to the volume weighted average trading price or direct that common shares be purchased for participants through the TSX at the market price. Common shares acquired by participants through optional cash purchases may be issued from treasury or purchased through the TSX at SLF Inc.'s option, in either case at no discount. The common shares issued from treasury for dividend reinvestments during 2010 and 2009 were issued at a discount of 2%. An insignificant number of common shares were issued from treasury for optional cash purchases at no discount.

15.B Preferred shares

The changes in issued and outstanding preferred shares for the year ended December 31 are as follows:

	2010		2009		2008	
Class A Preferred shares (in millions of shares)	**Number of shares**	**Amount**	Number of shares	Amount	Number of shares	Amount
Balance, January 1	**71**	**$ 1,741**	61	$ 1,495	61	$ 1,495
Issued, Series 6R	**–**	**–**	10	250	–	–
Issued, Series 8R	**11**	**280**	–	–	–	–
Issuance costs, net of taxes	**–**	**(6)**	–	(4)	–	–
Balance, December 31	**82**	**$ 2,015**	71	$ 1,741	61	$ 1,495

Further information on the preferred shares outstanding as at December 31, 2010, is as follows:

Class A Preferred shares (in millions of shares)	Issue Date	Dividend Rate	Earliest redemption date[1]	Number of shares	Face Amount	Net Amount[2]
Series 1	February 25, 2005	4.75%	March 31, 2010[3]	**16**	**$ 400**	**$ 394**
Series 2	July 15, 2005	4.80%	September 30, 2010[3]	**13**	**325**	**318**
Series 3	January 13, 2006	4.45%	March 31, 2011[3]	**10**	**250**	**245**
Series 4	October 10, 2006	4.45%	December 31, 2011[3]	**12**	**300**	**293**
Series 5	February 2, 2007	4.50%	March 31, 2012[3]	**10**	**250**	**245**
Series 6R[4]	May 20, 2009	6.00%	June 30, 2014[5]	**10**	**250**	**246**
Class A, Series 8R[6]	May 25, 2010	4.35%	June 30, 2015[7]	**11**	**280**	**274**
Total Preferred shares				**82**	**$ 2,055**	**$ 2,015**

(1) Redemption of all preferred shares is subject to regulatory approval.

(2) Net of after-tax issuance costs.

(3) On or after the earliest redemption date, SLF Inc. may redeem these shares in whole or in part, at a premium that declines from 4% of the par amount to Nil over the next following four years.

(4) On June 30, 2014, and every five years thereafter, the annual dividend rate will reset to an annual rate equal to the 5-year Government of Canada bond yield plus 3.79%. Holders of the Series 6R Shares will have the right, at their option, to convert their Series 6R Shares into Class A Non-Cumulative Floating Rate Preferred Shares Series 7QR ("Series 7QR Shares") on June 30, 2014 and every five years thereafter. Holders of Series 7QR Shares will be entitled to receive fixed non-cumulative quarterly dividends at an annual rate equal to the then 3-month Government of Canada treasury bill yield plus 3.79%.

(5) On June 30, 2014 and June 30 each fifth year thereafter, SLF Inc. may redeem these shares in whole or in part, at par.

(6) On June 30, 2015, and every five years thereafter, the annual dividend rate will reset to an annual rate equal to the 5-year Government of Canada bond yield plus 1.41%. Holders of the Series 8R Shares will have the right, at their option, to convert their Series 8R Shares into Class A Non-Cumulative Floating Rate Preferred Shares Series 9QR ("Series 9QR Shares") on June 30, 2015 and every five years thereafter. Holders of Series 9QR Shares will be entitled to receive fixed non-cumulative quarterly dividends at an annual rate equal to the then 3-month Government of Canada treasury bill yield plus 1.41%.

(7) On June 30, 2015 and June 30 each fifth year thereafter, SLF Inc. may redeem these shares in whole or in part, at par.

16. Operating expenses

Operating expenses for the years ended December 31 consist of the following:

	2010	2009	2008
Compensation costs	**$ 2,002**	$ 1,885	$ 1,789
Premises and equipment costs	**263**	257	247
Capital asset depreciation and amortization (Note 8)	**53**	60	63
Other	**1,086**	974	904
Total operating expenses	**$ 3,404**	$ 3,176	$ 3,003

17. Earnings (loss) per share

Details of the calculation of the net income (loss) and the weighted average number of shares used in the earnings per share computations for the years ended December 31 are as follows:

	2010	2009	2008
Common shareholders' net income (loss)	$ 1,583	$ 534	$ 785
Less: Effect of stock awards of subsidiaries [1]	12	6	14
Common shareholders' net income (loss) on a diluted basis	$ 1,571	$ 528	$ 771
Weighted average number of shares outstanding for basic earnings per share (in millions)	568	561	561
Add: Adjustments relating to the dilutive impact of stock options [2]	2	1	1
Weighted average number of shares outstanding on a diluted basis (in millions)	570	562	562
Basic earnings (loss) per share	$ 2.79	$ 0.95	$ 1.40
Diluted earnings (loss) per share	$ 2.76	$ 0.94	$ 1.37

(1) A subsidiary of SLF 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, we 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 SLF Inc. are included in the adjustment relating to the dilutive impact of stock options.

18. Stock-based compensation

18.A Stock option plans

SLF 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 grant date for stock options granted after January 1, 2007, and the closing price of the trading day preceding the grant date for stock options granted before January 1, 2007. The options granted under the stock option plans generally vest over a four-year period under the Executive Stock Option Plan; two years after the grant date under the Special 2001 Stock Option Award Plan; and over a two-year period under the Director Stock Option Plan. All options have a maximum exercise period of 10 years. The maximum numbers 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, grants under the Director Stock Option Plan were discontinued.

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

	2010		2009		2008	
	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	13,191	$ 32.27	10,030	$ 37.81	8,168	$ 35.98
Granted	2,861	30.21	4,291	20.44	2,355	40.47
Exercised	(690)	20.83	(255)	23.30	(306)	24.99
Forfeited	(1,169)	37.69	(875)	34.85	(187)	47.40
Balance, December 31	14,193	$ 31.87	13,191	$ 32.27	10,030	$ 37.81
Exercisable, December 31	7,467	$ 35.03	6,644	$ 35.14	5,911	$ 33.24

The average share price at the date of exercise of stock options for the year ended December 31, 2010 was $29.65 ($30.73 for 2009).

The aggregate intrinsic value, which is the difference between the market price of a common share and the exercise price of the stock option, for options exercisable as at December 31, 2010 is $19. For options where the exercise price is greater than the market price of a common share, the intrinsic value is zero. The aggregate intrinsic value of options exercised in 2010 was $6 ($2 and $6 for 2009 and 2008, respectively). As at December 31, 2010, the number of stock options vested and expected to vest at the end of the relevant vesting period is 13,701 thousand. The aggregate intrinsic value of the options vested and expected to vest is $45 with a weighted average exercise price of $32.03 and a weighted average remaining term to maturity of 6.02 years.

Compensation cost and the tax benefits recorded as well as the tax benefit realized for stock options for the years ended December 31 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.

	2010	2009	2008
Compensation expense recorded	$ 17	$ 16	$ 10
Income tax benefit on expense recorded	$ 1	$ 2	$ 1
Income tax benefit realized on exercised options	$ 1	$ –	$ 1

The unrecognized compensation cost, adjusted for an estimate of future forfeitures, for non-vested stock options as at December 31, 2010 was $11. The weighted average recognition period over which this compensation cost is expected to be recognized is 1.79 years.

The stock options outstanding and exercisable as at December 31, 2010, 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
$18.00 to $24.00	4,172	6.74	$ 19.94	1,588	4.43	$ 19.72
$24.01 to $30.00	2,333	4.37	28.41	1,736	3.07	28.44
$30.01 to $35.00	3,790	7.02	30.96	1,017	1.23	32.87
$35.01 to $45.00	918	3.86	40.39	918	3.86	40.39
$45.01 to $53.00	2,980	6.15	49.81	2,208	5.92	49.99
	14,193	6.11	$ 31.87	7,467	4.05	$ 35.03

The weighted average fair values of the stock options, calculated using the Black-Scholes option-pricing model, granted during the year ended December 31, 2010, was $7.53 ($4.44 and $6.59 for 2009 and 2008, respectively). The Black-Scholes option-pricing model used the following assumptions to determine the fair value of options granted during the years ending December 31:

Weighted average assumptions	2010	2009	2008
Risk-free interest rate	2.9%	2.3%	3.4%
Expected volatility	35.3%	32.7%	23.8%
Expected dividend yield	4.0%	4.0%	3.8%
Expected life of the option (in years)	6.4	5.9	5.6
Exercise Price	$ 30.21	$ 20.44	$ 40.47

Expected volatility is based on historical volatility of the common shares, implied volatilities from traded options on the common shares and other factors. The expected term of options granted is derived based on historical employee exercise behaviour and employee termination experience. The risk-free rate for periods within the expected term of the option is based on Canadian government bond yield curve in effect at the time of grant.

18.B Employee share ownership plan

In Canada, we match eligible employees' contributions to the Sun Life Financial Employee Stock Plan. The match is provided for employees who have met two years of employment eligibility and is equal to 50% of the employee's contributions up to 5% of an employee's annual compensation. The match is further capped by a one thousand five hundred dollar annual maximum. Employees may elect to contribute from 1% to 20% of their target annual compensation to the Sun Life Financial Employee Stock Plan. Our contributions vest immediately and are expensed. We recorded an expense of $4 for the year ended December 31, 2010 ($4 and $4 for 2009 and 2008 respectively).

18.C Other stock-based compensation plans

All other stock-based compensation plans use notional units that are valued based on the common share price on the TSX. Any fluctuation in the common share price changes the value of the units, which affects our stock-based compensation expense. Upon redemption of these units, payments are made to the employees with a corresponding reduction in the accrued liability. We use equity swaps and forwards to hedge our exposure to variations in cash flows due to changes in the 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 in value 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 value of the common shares immediately before their redemption.

Restricted Share Unit ("RSU") Plan: Under the RSU plan, participants are granted units that are equivalent in value to one common share and have a grant price equal to the average closing price of a common share on the TSX on the five trading days immediately prior to the date of grant. Plan participants 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 average closing price of a common share on the TSX on the five trading days immediately prior to the vesting date.

Performance Share Unit ("PSU") Plan/Incentive Share Unit ("ISU") Plan: Under these arrangements, participants are granted units that are the equivalent in value to one common share and have a grant price equal to the average of the closing price of a

common share on the TSX on the five trading days immediately prior to the date of grant. Participants must hold units for 36 months (or 40 months in the case of ISUs) from the date of grant. The units earn dividend equivalents in the form of additional units at the same rate as the dividends on common shares. No units will vest or become payable unless we meet our specified threshold performance targets. The plans provide for an enhanced payouts if we achieve superior levels of performance to motivate participants to achieve a higher return for shareholders. Payments to participants are based on the number of units vested multiplied by the average closing price of a common share on the TSX on the five trading days immediately prior to the vesting date.

Sun Share Unit ("Sun Shares") Plan: In December 2010, The Board approved the Sun Share Unit Plan which will replace the RSU and PSU plans for new awards granted effective in 2011. No awards were issued under this plan as at December 31, 2010. Under the Sun Share plan, participants are granted units that are the equivalent in value to one common share and have a grant price equal to the average of the closing price of a common share on the TSX on the five trading days immediately prior to date of the grant. Participants must hold units for up to 36 months from the date of grant. The units earn dividend equivalents in the form of additional units at the same rate as the dividends on common shares. Units may vest or become payable if we meet specified threshold performance targets. The plan provides for an enhanced payout if we achieve superior levels of performance to motivate participants to achieve a higher return for shareholders (enhanced payout is determined through a multiplier that can be as low as zero or as high as two times the number of units that vest). Payments to participants are based on the number of units earned multiplied by the average closing price of a common share on the TSX on the five trading days immediately prior to the vesting date.

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:

Number of units (in thousands)	DSUs	RSUs	PSUs/ISUs	Total
Units outstanding December 31, 2008	771	2,171	523	3,465
Units outstanding December 31, 2009	826	3,889	1,004	5,719
Units outstanding December 31, 2010	**777**	**4,409**	**1,181**	**6,367**
Liability accrued as at December 31, 2010	**$ 21**	**$ 77**	**$ 13**	**$ 111**

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 value of the common shares and the accruals of the RSU and PSU liabilities over the vesting period, and exclude any adjustment in expenses due to the impact of hedging.

	2010	2009	2008
Compensation expense recorded	**$ 57**	$ 44	$ (16)
Income tax expense (benefit) on expense recorded	**$ (17)**	$ (14)	$ 6

The unrecognized liability and compensation cost for other stock-based compensation plan units outstanding as at December 31, 2010, including an adjustment for expected future forfeitures was $61. The weighted average recognition period over which this compensation cost is expected to be recognized is 1.6 years. The unrecognized compensation cost and weighted average recognition period includes only costs related to the RSUs and PSUs since DSUs are generally vested at the date of grant. We paid $29 related to the liabilities of these plans in 2010 ($16 and $43 for 2009 and 2008, respectively).

18.D Stock-based compensation plans of a subsidiary

A subsidiary of ours grants stock options exercisable for shares of the subsidiary, restricted shares of the subsidiary and restricted share units ("RSUs"). Vesting requirements must be met in order for employees to have full ownership rights to the restricted share awards. Dividends are paid to restricted shareholders and are not forfeited if the award does not ultimately vest. The restricted stock awards vest over a four or five-year period and stock options vest over a four-year period. The RSUs vest over a two-year period from the grant date and RSU holders are entitled to receive non-forfeitable dividend equivalent payments over the vesting period. The RSUs are settled in cash upon vesting, while the stock options and restricted stock awards are settled in shares of the subsidiary.

The outstanding awards and related expenses in our Consolidated Statements of Operations for these awards for the years ended December 31 are as follows:

	2010	2009	2008
Awards outstanding (in thousands)	**150**	155	143
Expense recorded in operating expenses	**$ 52**	$ 36	$ 37
Income tax benefit recorded	**$ 19**	$ 14	$ 16

19. Income taxes

In our Consolidated Statements of Operations, the Income tax expense (benefit) for our worldwide operation has the following components for the years ended December 31:

	2010	2009	2008
Canadian income tax expense (benefit):			
Current	$ (23)	$ 240	$ 252
Future	25	(392)	98
Total	2	(152)	350
Foreign income tax expense (benefit):			
Current	117	(45)	(106)
Future	252	(345)	(587)
Total	369	(390)	(693)
Total income taxes expense (benefit)	$ 371	$ (542)	$ (343)

The after-tax undistributed earnings of most non-Canadian subsidiaries would be taxed only upon their repatriation to Canada. We recognize 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, we have 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 $96 as at December 31, 2010 ($61 and $160 in 2009 and 2008, respectively).

Our effective worldwide income tax rate differs from the combined Canadian federal and provincial statutory income tax rate for the years ended December 31, as follows:

	2010		2009		2008	
		%		%		%
Total net income (loss)	$ 1,685		$ 622		$ 857	
Add: Income taxes expense (benefit)	371		(542)		(343)	
Non-controlling interests in net income (loss) of subsidiaries	23		15		23	
Total net income (loss) before income taxes and non-controlling interests in net income (loss) of subsidiaries	$ 2,079		$ 95		$ 537	
Taxes at the combined Canadian federal and provincial statutory income tax rate	$ 634	30.5	$ 30	32.0	$ 175	32.5
Increase (decrease) in rate resulting from:						
Higher (lower) effective rates on income subject to taxation in foreign jurisdictions	(189)	(9.1)	(161)	(169.4)	(441)	(82.1)
Tax (benefit) cost of unrecognized losses	32	1.5	(99)	(104.2)	20	3.7
Tax exempt investment income	(200)	(9.6)	(294)	(309.9)	(49)	(9.1)
Changes to statutory income tax rates	(1)	–	(18)	(19.0)	(30)	(5.6)
Other	95	4.5	–	–	(18)	(3.3)
Effective worldwide income taxes	$ 371	17.8	$ (542)	(570.5)	$ (343)	(63.9)

Statutory tax rates in the jurisdictions in which we conduct business range from 0% to 35% which creates a tax rate differential and corresponding tax provision difference compared to the Canadian federal and provincial statutory rate when applied to foreign income not subject to tax in Canada. This impact is reported in the above table in Higher (lower) effective rates on income subject to taxation in foreign jurisdictions, which includes a tax benefit of $76 in 2010 associated with the favourable resolution of tax litigation in the U.K. An offsetting valuation allowance of $23 related to this tax benefit is reported in Tax (benefit) cost of unrecognized losses. For the Tax exempt investment income, the tax benefit amounted to $200 in 2010 as a result of improving market conditions during the year.

During the recent years, the Canadian federal government and certain provinces enacted legislation reducing corporate income tax rates. As a result of these enactments, our statutory income tax rates will decline gradually to 26% in 2013 as these rate reductions become effective. In 2010, the United Kingdom reduced the corporate income tax rates to 27% beginning in April 2011. The reductions require us to review our future tax assets and liabilities on an ongoing basis. The re-measurement of future taxes in 2010 impacted both the business attributable to participating policyholders and shareholders. The participating policyholders benefited by $Nil in 2010 ($16 and $25 in 2009 and 2008, respectively), while the increase to shareholders' income amounted to $1 in 2010 ($2 and $5 in 2009 and 2008, respectively).

In December 2010, we sold our life retrocession business. As a result, our income tax expense was $90 higher than expected due to the write-off of goodwill that was not deductible for tax purposes. The impact of the sale of our life retrocession business is reported in Other in the table above.

In 2009, Tax (benefit) cost of unrecognized losses included a tax benefit relating to investment impairment losses previously recorded in SLF U.S. of $101. Tax exempt investment income in 2009 included a tax benefit of $174 recorded as a result of the enactment of the Canadian tax rules relating to CICA Handbook Section 3855 *Financial Instruments – Recognition and Measurement*.

We have accumulated tax losses, primarily in the United Kingdom, United States and Canada, totalling $3,939 ($2,232 in 2009). The benefit of these tax losses has been recognized in future income taxes to the extent that they are more likely than not to be realized in the amount of $941 as at December 31, 2010 ($517 in 2009). We 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 our ability to utilize these losses. Some of our entities in certain jurisdictions have had cumulative losses in recent years. In determining if it is appropriate to recognize a future income tax asset relating to tax losses of those entities, we considered the relative impact of the existence of the cumulative losses against various forms of favourable evidence, including projections of future income, indicating that the benefit of these losses will be realized.

The majority of capital losses in the United States expire beginning in 2014 while non-capital losses expire beginning in 2023. The losses in Canada expire primarily in 2029 and 2030. The losses in the United Kingdom can be carried forward indefinitely.

The following are the future tax assets and liabilities in our Consolidated Balance Sheets as at December 31 by source of temporary differences:

	2010		2009	
	Assets	Liabilities	Assets	Liabilities
Investments	$ (60)	$ 552	$ 319	$ 742
Actuarial liabilities	(87)	(216)	(70)	(476)
Deferred acquisition costs	297	(6)	381	(5)
Losses available for carry forward	637	(483)	372	(249)
Other	(35)	97	77	(33)
	752	(56)	1,079	(21)
Valuation allowance	(43)	136	(25)	79
Total	$ 709	$ 80	$ 1,054	$ 58

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 our Consolidated Statements of Operations for the years ended December 31 are as follows:

	2010	2009	2008
Investments	$ 16	$ 1,033	$ (2,070)
Actuarial liabilities	283	(1,383)	1,851
Deferred acquisition costs	73	42	(46)
Losses (incurred) utilized	(395)	(525)	71
Other	300	96	(295)
Future income tax expense (benefit)	$ 277	$ (737)	$ (489)

20. Income taxes included in OCI

OCI included in our Consolidated Statements of Comprehensive Income is presented net of income taxes. The following income tax amounts are included in each component of OCI for the years ended December 31:

	2010	2009
Unrealized foreign currency gains and losses on net investment hedges	$ 3	$ (9)
Unrealized gains and losses on available-for-sale assets	(80)	(323)
Reclassifications to net income for available-for-sale assets	26	13
Unrealized gains and losses on cash flow hedging instruments	(17)	(38)
Reclassifications to net income for cash flow hedges	2	–
Total income tax benefit (expense) included in OCI	$ (66)	$ (357)

21. Commitments, guarantees and contingencies

21.A Lease commitments

We lease 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 total $523. The future rental payments by year of payment are included in Note 6B.

21.B Contractual commitments

In the normal course of business, various contractual commitments are outstanding, which are not reflected in our Consolidated Financial Statements. In addition to the loan commitments for bonds and mortgages included in Note 6Ai, we have equity and real estate commitments. We had a total of $968 of contractual commitments outstanding as at December 31, 2010, the expected maturities of these commitments are included in Note 6B.

21.C Letters of credit

We issue commercial letters of credit in the normal course of business. As at December 31, 2010, letters of credit in the amount of $577 are outstanding, of which $404 relate to internal reinsurance.

21.D Indemnities and guarantees

In the normal course of our business, we have 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, the sale of equity interests, and service agreements. These agreements may require us 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. We have also agreed to indemnify our directors and certain of our officers and employees in accordance with our 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 our liability, and the occurrence of contingent events that will trigger payment under these indemnities is difficult to predict. As a result, we cannot estimate our potential liability under these indemnities. We believe the likelihood of conditions arising that would trigger these indemnities is remote and, historically, we have not made any significant payment under such indemnification provisions.

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

Guarantees made by us that can be quantified are included in Note 6Ai.

21.E Guarantees of Sun Life Assurance preferred shares and subordinated debentures

On November 15, 2007, SLF Inc. provided a full and unconditional guarantee of the following subordinated debentures issued by Sun Life Assurance: the $150 of 6.30% subordinated debentures due 2028, the $300 of 6.65% subordinated debentures due 2015, and the $800 of 6.15% subordinated debentures due 2022. The $300 of 6.65% subordinated debentures due 2015 were redeemed in the fourth quarter of 2010. All of the subordinated debentures were held by external parties. On that date, SLF Inc. also provided a subordinated guarantee of the preferred shares issued by Sun Life Assurance from time to time, other than such preferred shares held by SLF Inc. and its affiliates. Sun Life Assurance has no outstanding preferred shares subject to the guarantee. Claims under the guarantee of the subordinated debentures will rank equally with all other subordinated indebtedness of SLF Inc. As a result of these guarantees, Sun Life Assurance is entitled to rely on an order dated November 14, 2007 exempting it from most continuous disclosure and the certification requirements of Canadian securities laws.

The following tables set forth certain consolidating summary financial information for SLF Inc. and Sun Life Assurance (Consolidated), as required under the order:

For the year ended December 31	SLF Inc. (unconsolidated)	Sun Life Assurance (consolidated)	Other Subsidiaries of SLF Inc. (combined)	Consolidation adjustments	SLF Inc. (consolidated)
2010					
Revenue	**$ 448**	**$ 20,018**	**$ 5,394**	**$ (1,220)**	**$ 24,640**
Shareholders' net income (loss)	**$ 1,676**	**$ 1,571**	**$ 218**	**$ (1,789)**	**$ 1,676**
2009					
Revenue	$ 146	$ 19,883	$ 7,694	$ (151)	$ 27,572
Shareholders' net income (loss)	$ 613	$ 715	$ (65)	$ (650)	$ 613
2008					
Revenue	$ 518	$ 13,290	$ 2,689	$ (934)	$ 15,563
Shareholders' net income (loss)	$ 855	$ 1,506	$ (814)	$ (692)	$ 855

For the year ended December 31	SLF Inc. (unconsolidated)	Sun Life Assurance (consolidated)	Other Subsidiaries of SLF Inc. (combined)	Consolidation adjustments	SLF Inc. (consolidated)
2010					
Invested assets	**$ 19,926**	**$ 86,296**	**$ 21,810**	**$ (18,351)**	**$ 109,681**
Total other assets	**$ 8,222**	**$ 9,047**	**$ 15,334**	**$ (21,425)**	**$ 11,178**
Actuarial and other policy liabilities	$ –	$ 70,922	$ 13,305	$ 136	$ 84,363
Total other liabilities	**$ 9,903**	**$ 13,303**	**$ 19,360**	**$ (24,429)**	**$ 18,137**
2009					
Invested assets	$ 21,324	$ 82,930	$ 23,766	$ (19,791)	$ 108,229
Total other assets	$ 4,319	$ 10,224	$ 10,373	$ (13,054)	$ 11,862
Actuarial and other policy liabilities	$ –	$ 69,043	$ 15,629	$ 86	$ 84,758
Total other liabilities	$ 8,413	$ 13,676	$ 12,234	$ (16,327)	$ 17,996

21.F Legal and regulatory proceedings

SLF Inc. and its subsidiaries are regularly involved in legal actions, both as a defendant and as a plaintiff. In addition, government and regulatory bodies in Canada, the United States, the United Kingdom and Asia, including federal, provincial and state regulatory bodies, securities and insurance regulators in Canada, the United States and other jurisdictions, the United States Securities Commission, the

United States Financial Industry Regulatory Authority, and state attorneys general in the United States, from time to time, make inquiries and require the production of information or conduct examinations or investigations concerning compliance by SLF Inc. and its subsidiaries with insurance, securities and other laws. Management does not believe that the conclusion of any current legal or regulatory matters, either individually or in the aggregate, will have a material adverse effect on our financial condition or results of operations.

22. Pension plans and other post-retirement benefits

We sponsor 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, we maintain supplementary non-contributory pension arrangements for eligible employees, primarily for benefits which do not qualify for funding under the various registered pension plans.

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

On January 1, 2009, the Canadian Staff defined benefit plan was closed to new employees, and was replaced with a defined contribution plan for employees hired on or after January 1, 2009. Canadian employees hired before then continue to participate in the previous plan, which includes both defined benefit and defined contribution components. As a result, only defined contribution plans are open to new hires worldwide (except for one small defined benefit plan in the Philippines).

In addition to our pension plans, in some countries we provide certain post-retirement medical, dental and life insurance benefits to eligible qualifying employees and to their dependants 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. These post-retirement benefits are not pre-funded.

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

	Pension		Post-Retirement	
	2010	2009	**2010**	2009
Change in projected benefit obligation:				
Projected benefit obligation, January 1	**$ 2,284**	$ 2,186	**$ 266**	$ 233
Service cost	**34**	35	**5**	4
Interest cost	**130**	132	**15**	15
Actuarial losses (gains)	**37**	181	**–**	34
Benefits paid	**(146)**	(169)	**(11)**	(11)
Curtailments, settlements and plan amendments	**–**	–	**–**	(1)
Effect of changes in currency exchange rates	**(65)**	(81)	**(3)**	(8)
Projected benefit obligation, December 31[1]	**$ 2,274**	$ 2,284	**$ 272**	$ 266
Accumulated benefit obligation, December 31[2]	**$ 2,160**	$ 2,154		
Change in plan assets:				
Fair value of plan assets, January 1	**$ 2,047**	$ 1,995	**$ –**	$ –
Net actual return on plan assets	**197**	252	**–**	–
Employer contributions	**54**	36	**11**	11
Benefits paid	**(146)**	(169)	**(11)**	(11)
Effect of changes in currency exchange rates	**(60)**	(67)	**–**	–
Fair value of plan assets, December 31	**$ 2,092**	$ 2,047	**$ –**	$ –
Net funded status, December 31	**$ (182)**	$ (237)	**$ (272)**	$ (266)
Unamortized net actuarial loss (gain)	**391**	456	**19**	20
Unamortized past service cost	**7**	9	**(5)**	(14)
Unamortized transition asset	**(15)**	(33)	**(1)**	(3)
Accrued benefit asset (liability), December 31	**$ 201**	$ 195	**$ (259)**	$ (263)
Balance sheet classification of accrued benefit asset (liability), December 31:				
Other assets	**$ 408**	$ 405	**$ –**	$ –
Other liabilities	**$ 207**	$ 210	**$ 259**	$ 263
Pension plans with projected benefit obligations in excess of plan assets:				
Projected benefit obligations	**$ 1,793**	$ 1,503		
Plan assets	**$ 1,599**	$ 1,251		

	Pension			Post-Retirement		
	2010	2009	2008	**2010**	2009	2008
Components of defined benefit cost recognized:						
Service cost, curtailments and settlements	**$ 34**	$ 35	$ 50	**$ 5**	$ 4	$ 5
Plan amendments	**–**	–	–	**–**	(1)	(1)
Interest cost	**130**	132	129	**15**	15	14
Actual return on plan assets	**(197)**	(252)	307	**–**	–	–
Actuarial losses (gains)	**37**	181	(331)	**–**	34	(34)
Benefit cost before adjustments to recognize the long-term nature of defined benefit plans	**4**	96	155	**20**	52	(16)
Adjustments to recognize the long-term nature of defined benefit plans:						
Difference between expected and actual return on plan assets for year	**65**	118	(462)	**–**	–	–
Difference between actuarial losses (gains) recognized and actual actuarial losses (gains) on accrued benefit obligation for year	**(7)**	(155)	363	**1**	(38)	35
Difference between amortization of past service costs for year and actual plan amendments for year	**1**	1	1	**(9)**	(13)	(23)
Amortization of transition obligation (asset)	**(17)**	(18)	(18)	**(2)**	(2)	(2)
Total adjustments to defer costs to future periods	**$ 42**	$ (54)	$ (116)	**$ (10)**	$ (53)	$ 10
Total benefit cost recognized for the years ended December 31	**$ 46**	$ 42	$ 39	**$ 10**	$ (1)	$ (6)

Key weighted average assumptions:

	Pensions		Post-Retirement	
	2010	2009	**2010**	2009
To measure benefit obligation at end of year				
Discount rate	**5.2%**	6.0%	**5.2%**	5.8%
Rate of compensation increase	**3.4%**	3.8%	**–**	–
Initial health care cost trend rate[3]	**–**	–	**7.7%**	8.1%
To determine benefit costs or income for the period				
Discount rate	**6.0%**	6.5%	**5.8%**	6.5%
Expected long-term rate of return on plan assets	**6.8%**	6.8%	**–**	–
Rate of compensation increase	**3.8%**	3.6%	**–**	–
Initial health care cost trend rate[3]	**–**	–	**8.1%**	9.4%

(1) The date of the most recent actuarial valuation for funding purposes was January 1, 2009 for the United Kingdom and January 1, 2010 for all other plans. The next required funding valuation is January 1, 2013 for the plans in Canada, January 1, 2012 for the United Kingdom, and January 1, 2011 for all other plans.

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

(3) The assumed medical cost trend rate used in measuring the accumulated post-retirement benefits obligation at the end of the year for Canada in 2010 was 7.5% per year until 2015, then decreasing gradually to an ultimate rate of 4.5% per year in 2030 (in 2009 was 8.0% per year until 2015, then decreasing gradually to an ultimate rate of 5.0% per year in 2030). For the United States in both 2010 and 2009, the assumed rate was 8.5%, decreasing gradually to an ultimate rate of 5.0% in 2017. The assumed dental cost trend rate was 4.0% for Canada and 5% for the United States (in 2009 it was 4.5% for Canada and 5.0% for the United States).

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 portfolio of Corporate “AA” bonds is selected that matches the projected benefit payments of the plans. The discount rate assumption is a single rate that equates the market value of the matching bond portfolio to the discounted value of the projected benefit payments.

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.

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

	1%	
	Increase	**Decrease**
Effect on post-retirement benefit obligations	**$ 23**	**$ (21)**
Effect on aggregated service and interest costs	**$ 2**	**$ (2)**

Composition of fair value of plan assets, December 31:

	2010	2009
Equity investments	44%	44%
Fixed income investments	44%	43%
Real estate investments	4%	4%
Other	8%	9%
Total composition of fair value of plan assets	100%	100%

Target allocation of plan assets, December 31:

	2010	2009
Equity investments	44%	43%
Fixed income investments	45%	43%
Real estate investments	5%	5%
Other	6%	9%
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 is eligible under pension regulations. The policy statement for each fund or manager mandate either prohibits, or permits, within specified constraints, the use of derivative instruments such as options and futures. The use of derivative instruments is limited to unleveraged substitution 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 those of our 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	$ 56	$ 14	$ 70

Expected future benefit payments

	2011	2012	2013	2014	2015	2016 to 2020
Pension	$ 99	$ 108	$ 112	$ 118	$ 123	$ 744
Post-retirement	14	15	15	16	17	90
Total	$ 113	$ 123	$ 127	$ 134	$ 140	$ 834

The total contribution made by us to defined contribution plans was $55 in 2010, $51 in 2009 and $52 in 2008.

23. Foreign exchange gain/loss

The net foreign exchange gain of $5, equivalent to the proportionate amount of the foreign exchange loss accumulated in unrealized foreign currency translation gains (losses) in accumulated OCI from our self-sustaining foreign operations, was recognized in Other net investment income (loss) for the year ended December 31, 2010 (loss of $6 in 2009 and loss of $6 in 2008).

24. Related party transactions

Transactions between SLF Inc. and its subsidiaries, which are related parties of SLF Inc., have been eliminated on consolidation and are not disclosed in this note.

Prior to the sale of the equity investment in CI Financial on December 12, 2008 (see Note 3), we received distribution fees from CI Investments Inc. for sales of its products by agents licensed through us. Distribution fees for 2008 of $129 are included in Fee income in our Consolidated Statements of Operations. As a result of the sale, CI Investments Inc. is no longer related party.

25. Variable interest entities

We have a greater than 20% interest in a number of VIEs where we do 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. As at December 31, 2010, our maximum exposure to loss related to all of these investments is $284 ($313 in 2009), which is the carrying amount of these assets.

In the fourth quarter of 2007, a subsidiary of ours obtained external funding (as described in Note 12D for excess U.S. statutory actuarial reserves attributable to specific blocks of universal life policies through the use of a VIE. Our subsidiary consolidates the VIE as the primary beneficiary since it is exposed to the majority of the expected losses.

26. Summary of differences between accounting principles Generally accepted in Canada and in the United States

Our 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.

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

26.A.i Consolidated Statements of Operations for the years ended December 31:

	2010		2009		2008	
	Cdn. GAAP	**U.S. GAAP**	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP
REVENUE						
Premiums	$ 13,498	$ 9,396	$ 15,510	$ 9,703	$ 13,587	$ 8,979
Total net investment income (loss)	7,880	5,728	9,397	7,730	(526)	2,401
Net realized gains (losses)	119	403	(5)	(149)	(241)	(951)
Fee income	3,143	3,267	2,670	2,654	2,743	3,335
	24,640	18,794	27,572	19,938	15,563	13,764
POLICY BENEFITS AND EXPENSES						
Payments to policyholders, beneficiaries and depositors	13,999	9,923	14,317	10,560	14,314	9,847
Increase (decrease) in actuarial liabilities	2,909	1,692	7,697	1,104	(4,429)	2,085
Acquisition expense amortization	53	887	48	1,135	50	(394)
Other expenses	5,600	4,709	5,415	4,359	5,091	3,970
	22,561	17,211	27,477	17,158	15,026	15,508
INCOME (LOSS) BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	2,079	1,583	95	2,780	537	(1,744)
Income taxes expense (benefit)	371	76	(542)	362	(343)	(1,088)
Non-controlling interests in net income (loss) of subsidiaries	23	–	15	–	23	–
TOTAL NET INCOME (LOSS)	1,685	1,507	622	2,418	857	(656)
Less: Non-controlling interests' net income (loss)	–	23	–	15	–	23
Less: Participating policyholders' net income (loss)	9	–	9	–	2	–
SHAREHOLDERS' NET INCOME (LOSS)	1,676	1,484	613	2,403	855	(679)
Less: Preferred shareholder dividends	93	93	79	79	70	70
COMMON SHAREHOLDERS' NET INCOME (LOSS)	$ 1,583	$ 1,391	$ 534	$ 2,324	$ 785	$ (749)
Earnings (loss) per share						
Basic	$ 2.79	$ 2.45	$ 0.95	$ 4.14	$ 1.40	$ (1.34)
Diluted	$ 2.76	$ 2.42	$ 0.94	$ 4.12	$ 1.37	$ (1.36)
Weighted average shares outstanding in millions						
Basic	568	568	561	561	561	561
Diluted	570	570	562	562	562	561

26.A.ii Consolidated Balance Sheets as at December 31:

	2010		2009[1]	
	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP
ASSETS				
Bonds – held-for-trading	$ 54,753	$ 15,053	$ 51,634	$ 14,835
Bonds – available-for-sale	10,752	51,481	9,673	46,433
Mortgages and corporate loans	19,511	18,677	19,449	19,449
Stocks – held-for-trading	4,424	1,008	4,331	1,331
Stocks – available-for-sale	808	4,223	635	3,636
Real estate, net of accumulated depreciation (accumulated depreciation: 2010 – $600; 2009 – $561)	4,919	3,216	4,877	3,190
Cash and cash equivalents	3,609	3,609	5,865	5,845
Short-term securities[2]	4,878	4,852	6,003	5,963
Derivative assets	1,629	1,732	1,382	1,357
Policy loans and other invested assets	3,525	4,085	3,503	4,073
Other invested assets – held-for-trading	419	207	425	206
Other invested assets – available-for-sale	454	696	452	689
Invested assets	109,681	108,839	108,229	107,007
Goodwill	5,978	4,444	6,419	4,678
Intangible assets	898	877	926	907
Deferred acquisition costs	187	7,153	167	7,763
Future income taxes[3]	709	417	1,054	681
Other assets	3,406	7,623	3,296	7,890
Total other assets	11,178	20,514	11,862	21,919
Segregated funds assets[4]		87,944		80,551
Total consolidated assets	$ 120,859	$ 217,297	$ 120,091	$ 209,477
Segregated funds net assets[4]	$ 88,911		$ 81,305	
LIABILITIES AND EQUITY				
Actuarial liabilities and other policy liabilities	$ 84,363	$ 56,947	$ 84,758	$ 56,563
Contract holder deposits		31,481		34,101
Amounts on deposit	4,450	4,661	4,181	4,390
Derivative liabilities	700	762	1,257	1,196
Deferred net realized gains	219		225	
Senior debentures	3,811	3,795	3,811	3,811
Future income taxes[3]	80	166	58	128
Other liabilities	6,082	9,833	5,374	8,301
Total general fund liabilities	99,705	107,645	99,664	108,490
Subordinated debt	2,741	2,741	3,048	3,048
Non-controlling interests in subsidiaries[5]	54		42	
Segregated funds liabilities[4]		87,944		80,551
Equity	18,359	18,967	17,337	17,388
Total consolidated liabilities and equity	$ 120,859	$ 217,297	$ 120,091	$ 209,477
Segregated funds contract liabilities[4]	$ 88,911		$ 81,305	

(1) Opening retained earnings as at January 1, 2008 have been restated. Refer to Note 2.
(2) U.S. GAAP terminology is short-term investments.
(3) U.S. GAAP terminology is deferred income tax.
(4) U.S. GAAP terminology is separate accounts.
(5) Included in equity in U.S. GAAP.

26.A.iii Consolidated Statements of Equity for the years ended December 31:

	2010		2009[1]	
	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP
PARTICIPATING POLICYHOLDERS' CAPITAL ACCOUNT:				
Balance, January 1	$ 107	$	$ 106	$
Net income (loss) attributed to participating policyholders	9		9	
Total other comprehensive income (loss)	(2)		(8)	
Balance, December 31	114		107	
SHAREHOLDERS' EQUITY:				
PREFERRED SHARES				
Balance, January 1	1,741	1,741	1,495	1,495
Shares issued, net of issuance costs	274	274	246	246
Balance, December 31	2,015	2,015	1,741	1,741
PAID IN CAPITAL				
Balance, January 1	7,259	13,049	7,101	12,903
Common shares issued under dividend reinvestment and share purchase plan	263	263	136	136
Stock options exercised[2]	15	15	6	6
Stock-based compensation[3]	19	26	16	14
Change due to transactions with non-controlling interests		21		(10)
Balance, December 31	7,556	13,374	7,259	13,049
RETAINED EARNINGS				
Balance, January 1, as previously reported	10,762	5,157	11,024	3,629
Adjustment for change in accounting policy adopted on January 1, 2010 [4]	–	21	–	–
Balance, January 1, after change in accounting policy	10,762	5,178	11,024	3,629
Adjustment for change in accounting policy adopted on July 1, 2010 [4]	–	(21)	–	–
Net income (loss) for the year attributed to shareholders	1,676	1,484	613	2,403
Dividends on common shares	(811)	(811)	(796)	(796)
Dividends on preferred shares	(93)	(93)	(79)	(79)
Balance, December 31	11,534	5,737	10,762	5,157
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), net of taxes				
Balance, January 1, as previously reported	(2,532)	(2,601)	(2,394)	(3,822)
Adjustment for change in accounting policy adopted on January 1, 2010 [4]	–	14	–	–
Balance, January 1, after change in accounting policy	(2,532)	(2,587)	(2,394)	(3,822)
Adjustment for change in accounting policy adopted on July 1, 2010 [4]	–	21	–	–
Total other comprehensive income (loss)	(328)	353	(138)	1,221
Balance, December 31	(2,860)	(2,213)	(2,532)	(2,601)
Total retained earnings and accumulated other comprehensive income (loss)	8,674	3,524	8,230	2,556
TOTAL SHAREHOLDERS' EQUITY	$ 18,245	$ 18,913	$ 17,230	$ 17,346
NON-CONTROLLING INTERESTS[5]				
Balance, January 1		$ 42		$ 44
Net Income (loss)		23		15
Other changes in non-controlling interests		(11)		(17)
Balance, December 31		$ 54		$ 42
TOTAL EQUITY	$ 18,359	$ 18,967	$ 17,337	$ 17,388

(1) Opening retained earnings as at January 1, 2008 have been restated. Refer to Note 2.
(2) Shown as share capital and contributed surplus under Cdn. GAAP.
(3) Shown as contributed surplus under Cdn. GAAP.
(4) See section C of this Note for details of the changes in accounting policies.
(5) Included in equity in U.S. GAAP.

As at December 31	2010		2009	
	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), net of taxes				
Balance, end of year, consists of:				
Unamortized net actuarial loss[1]	$	$ (162)	$	$ (209)
Unamortized past service cost[1]		(1)		5
Unamortized transition asset[1]		(1)		2
Unrealized gains (losses) on available-for-sale assets	324	2,429	30	814
Unrealized foreign currency translation gains (losses), net of hedging activities	(3,244)	(3,474)	(2,637)	(2,844)
Unrealized gains (losses) on derivatives designated as cash flow hedges	45	6	62	8
Deferred acquisition costs and other liabilities		(1,010)		(377)
Balance, December 31	$ (2,875)	$ (2,213)	$ (2,545)	$ (2,601)

[1] Included in Other assets and Other liabilities for plans with surpluses and deficits respectively under Cdn. GAAP.

26.A.iv Comprehensive income (loss):

For U.S. GAAP, changes to deferred acquisition costs and other liabilities, as well as amounts related to defined benefit pension plans are included in addition to the components included in comprehensive income (loss) for Cdn. GAAP.

For the years ended December 31	2010		2009		2008	
	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP
Total net income (loss)	$ 1,685	$ 1,507	$ 622	$ 2,418	$ 857	$ (656)
Other comprehensive income (loss), net of taxes:						
Unrealized foreign currency translation gains (losses), excluding hedges	(694)	(743)	(1,908)	(1,816)	2,162	1,955
Unrealized foreign currency gains (losses), net investment hedges	92	113	314	335	(396)	(451)
Net adjustment for foreign exchange losses	(5)	–	6	–	6	–
Unrealized gains (losses) on available-for-sale assets	388	1,832	1,492	3,429	(1,653)	(4,763)
Reclassifications to net income (loss) for available-for-sale assets	(94)	(252)	(33)	177	199	885
Unrealized gains (losses) on cash flow hedging instruments	(13)	2	(18)	14	24	(34)
Reclassifications to net income (loss) for cash flow hedges	(4)	(4)	1	1	23	24
Changes to deferred acquisition costs and other liabilities		(633)		(877)		1,253
Changes in unamortized net actuarial loss		47		(36)		(47)
Changes in past service cost		(6)		(8)		(16)
Changes in transition asset		(3)		2		(5)
Total other comprehensive income (loss)	(330)	353	(146)	1,221	365	(1,199)
Less:						
Participating policyholders' net income (loss)	9		9		2	
Participating policyholders' foreign currency translation gains (losses), excluding hedges	(2)		(8)		9	
Non-controlling interests' net income (loss)		23		15		23
Shareholders' comprehensive income (loss)	$ 1,348	$ 1,837	$ 475	$ 3,624	$ 1,211	$ (1,878)

26.A.v Effect of differences between Cdn. GAAP and U.S. GAAP net income (loss):

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

For the years ended December 31	2010	2009	2008
Total net income (loss) in accordance with Cdn. GAAP	**$ 1,685**	$ 622	$ 857
Adjustments related to:			
Investments			
Bonds[1]	**(1,321)**	(1,893)	1,632
Stocks and segregated fund units[1]	**(267)**	(716)	980
Derivative instruments	**71**	1,005	(136)
Real estate	**(55)**	(121)	(214)
Total investments	**(1,572)**	(1,725)	2,262
Deferred acquisition costs			
Deferred acquisition costs – deferred	**765**	925	793
Deferred acquisition costs – amortization and interest	**(991)**	(1,229)	444
Total deferred acquisition costs	**(226)**	(304)	1,237
Actuarial liabilities and other policyholder revenues and expenses			
Premium and fees revenue	**(3,733)**	(5,610)	(3,766)
Payments to policyholders, beneficiaries and depositors	**4,075**	3,757	4,467
Actuarial liabilities	**1,217**	6,593	(6,514)
Total actuarial liabilities and other policyholder revenues and expenses	**1,559**	4,740	(5,813)
Other	**(256)**	(26)	33
Income tax effect of above adjustments	**294**	(904)	745
Non-controlling interests' net income (loss)	**23**	15	23
Total net income (loss) in accordance with U.S. GAAP	**$ 1,507**	$ 2,418	$ (656)

[1] Differences in net income (loss) are attributable to different asset designations. Under Cdn. GAAP, assets are generally designated as held-for-trading for investments supporting actuarial liabilities, and available- for-sale for assets generally not supporting actuarial liabilities (as described in more detail in Note 1). For U.S. GAAP, most of our assets are designated as available-for-sale.

26.B Significant accounting policy differences between Cdn. GAAP and U.S. GAAP

The following table shows the significant accounting policy differences between Cdn. GAAP and U.S. GAAP applicable to us:

	Cdn. GAAP	U.S. GAAP
Bonds and Stocks	When there is objective evidence that debt securities are impaired due to issuer credit concern resulting in a decline in fair value that is considered other-than-temporary, including when there is intent to sell, the loss is charged to earnings. When there is objective evidence that equity securities are impaired due to a significant or prolonged decline in fair value that is considered other-than-temporary, including when there is intent to sell, the loss is charged to earnings. Effective in 2009, if the fair value of a debt security increases after an impairment loss was recognized and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed into income. Prior to 2009, once an impairment loss was recorded to income, it could not be reversed.	Commencing April 1, 2009, as a result of adoption of Financial Accounting Standards Board ("FASB") ASC Topic 320, losses on debt securities which are other-than-temporarily impaired are separated into two categories, the portion of loss which is considered credit loss ("credit loss") and the portion of loss which is due to other factors ("non-credit loss"). The credit loss portion is charged to earnings, while the non-credit loss is charged to other comprehensive income (loss) if we do not intend to sell the debt security, or if it is not more likely than not that we will be required to sell the debt security. Prior to April 2009, in addition to other-than-temporary impairment due to issuer credit, other-than-temporary impairment charges were also recorded in income for declines in fair values of debt securities due to changes in prevailing interest rates when we did not have the intent and ability to hold to recovery. Impairment losses on debt securities are not reversed.

	Cdn. GAAP	U.S. GAAP
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 (loss) at the rate of 3% of the unamortized balance each quarter. We record 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 the value of specific properties results in a write-down charged to income.
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, amortization is based on a constant percentage of premium. Amortization for participating policies in the United Kingdom is based on the change in the sum assured. In cases where amortization is based on gross profit or margin, and available-for-sale bonds or stocks are used to support the underlying contract liability or actuarial reserve, a portion of the unrealized gains and losses balance is removed from equity and netted against the deferred acquisition cost balance.
Actuarial liabilities and contract holder deposits	Actuarial liabilities are calculated in accordance with Canadian generally accepted actuarial practice. This method uses best estimate assumptions for future experience factors adjusted to provide modest margins for adverse deviation in each experience factor.	The actuarial liabilities for participating life policies, except those in the United Kingdom, are computed using a net level premium reserve method with interest and mortality assumptions based primarily upon those assumptions used for establishing the cash surrender values in the contract. For universal life-type and investment contracts, contract holder deposits represent account balances and U.S. GAAP liabilities primarily equal account value balances. The account values represent an accumulation of gross deposits received plus credited interest less withdrawals, expenses and mortality charges. Other non-participating products include term, group and disability insurance. For these products, as well as participating contracts in the United Kingdom, a net level premium method is used with assumptions locked in at time of issue, unless the business is in a loss recognition position, in which case a best estimate gross premium valuation is used.
Deferred net realized gains	Realized gains and losses on sales of real estate are deferred and amortized.	Realized gains and losses on sales of real estate are recognized in income immediately.

	Cdn. GAAP	U.S. GAAP
Premium revenue, fee income, maturities and surrenders, and interest on claims and deposits	Premiums for universal life and other investment-type contracts are recorded as revenue, and a liability for future policy benefits is established as a charge to income. Interest accrued on contracts is shown as an increase in actuarial liabilities. Payments to contract holders upon maturity are reflected as an expense with an offsetting reduction to the increase in actuarial liabilities.	Amounts received for universal life and investment-type contracts are not included in the income statement but are reported as deposits to contract holder account balances. Revenues from these contracts are limited to amounts assessed against policyholders' account balances for mortality, policy administration and surrender charges, and are included in Fee income when earned. Interest accrued on contracts is included in interest on claims and deposits. Payments upon maturity or surrender are reflected as reductions to the contract holder deposits on the balance sheet. Other payments in excess of the account value, such as death claims, are reflected as an expense.
Unrealized foreign currency translation gains (losses)	A proportionate amount of the exchange gain or loss accumulated in OCI is reflected in net income when there is a reduction in our 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 OCI is reflected in net income only when there is a reduction in our net investment in the foreign operation resulting from the sale of all or substantially all of the foreign operation.
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 substantively 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 this note. As well, this note provides other disclosure differences.
Derivatives	For net investment hedges, changes in fair value of these hedging derivatives, along with interest earned and paid on the swaps are recorded to the foreign exchange gains and losses in OCI, offsetting the respective exchange gains or losses arising from the underlying investments. There is no requirement to bifurcate embedded derivatives from actuarial liabilities for insurance contracts. As a result, they are included as part of actuarial liabilities.	For net investment hedges, spot rate changes on the hedging derivatives are recorded to the foreign exchange gains and losses in OCI to offset the respective exchange gains or losses arising from the underlying investments. The remainder of the changes in fair value, along with interest earned and paid, is recorded in net income. Embedded derivatives in insurance contracts are separately accounted for as stand-alone derivatives when they are not clearly and closely related to their host instruments. They are recorded at fair value with changes in fair value recorded in income.
Non-cash collateral	Non-cash collateral received in securities lending transactions is not recognized on our Consolidated Financial Statements.	If we have the ability to sell or repledge non-cash collateral received in securities lending transactions, we recognize an asset on the balance sheet and a corresponding liability for the obligation to return it.
Non-controlling interests	Non-controlling interests is presented outside of liabilities and equity. Transactions with non-controlling interests are accounted for as step-acquisitions or disposals.	Non-controlling interests is included as part of equity, separate from shareholders' equity. Effective in 2009, transactions with non-controlling interests that do not result in a change in control are accounted for as equity transactions rather than step-acquisitions or disposals.
Business combinations	Transaction and other costs directly related to an acquisition are capitalized as part of the purchase.	As a result of the adoption of the amended section on business combinations in ASC Topic 805 in 2009 (originally issued as FAS 141(R), transaction costs related to an acquisition are recognized as an expense through income.
Consolidation of VIE	VIEs for which we are the primary beneficiary are consolidated. The primary beneficiary is the variable interest holder that absorbs the majority of the expected losses, expected residual returns, or both. Qualifying Special Purpose Entities ("QSPE's") are exempt from consolidation by the transferor.	Prior to 2010, the consolidation requirements for VIEs were the same as under Canadian GAAP. As the result of the amendments to ASC Topic 810 adopted on January 1, 2010, the primary beneficiary is the variable interest holder that has both the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses, or the right to receive benefits, that could potentially be significant to the VIE. QSPEs are no longer exempt from the consolidation guidance.

[1] U.S. GAAP terminology is deferred income tax.

26.C Changes in U.S. generally accepted accounting standards

Adopted in 2010

The significant new U.S. GAAP accounting pronouncements and their impact to our Consolidated Financial Statements are described in the section that follows.

In June 2009, the FASB issued ASU 2009-16, *Accounting for Transfers of Financial Assets*, which amends ASC Topic 860, *Transfers and Servicing*. It amends the sale accounting criteria for transfers of financial assets, changes the initial recognition of retained interests, provides a definition of a participating interest to establish when transfers of portions of financial assets can achieve sale accounting, and eliminates the concept of a QSPE. As a result, QSPEs are subject to the consolidation guidance in ASC Topic 810: *Consolidations*. This guidance is effective for financial asset transfers occurring on or after January 1, 2010. The adoption of these amendments did not have a material impact in our Consolidated Financial Statements.

In June 2009, the FASB issued *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, which amends ASC Topic 810, *Consolidations*. We adopted these amendments on January 1, 2010. This guidance amends the consolidated requirements applicable to VIEs. Under this new guidance, an entity would consolidate a VIE when the entity has both (a) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (b) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. In February 2010, the FASB issued ASU 2010-10, *Amendments for Certain Investment Funds*, which defers the amended consolidation guidance from being applied for a reporting entity's interest in an entity (1) that has all the attributes of an investment company or (2) for which it is industry practice to apply measurement principles for financial reporting purposes that are consistent with those followed by investment companies. As a result of the amended consolidation guidance, in addition to the VIE we consolidated under the previous guidance, we consolidated two Company sponsored Collateralized Debt Obligations ("CDO") and one synthetic CDO, electing the fair value option, four Company sponsored Collateralized Loan Obligations ("CLO"), at the carrying values carried forward as if we had been the primary beneficiary from the date we entered into the VIE arrangements and the SL Capital Trusts that issued the innovative capital instruments. The impact in our Consolidated Balance Sheet on January 1, 2010, as a result of consolidating the CDO, the synthetic CDO and the CLO VIEs was an increase in assets of $926, an increase in liabilities of $891, and increases in retained earnings of $21 and accumulated OCI of $14. The increases in retained earnings and accumulated OCI, respectively, are related to the unrealized net losses on held-for-trading and available-for-sale debt securities issued by the various VIEs which are eliminated and effectively remeasured at amortized cost through consolidation. We elected the fair value option for the CDOs and synthetic CDO to reduce the accounting mismatch that would result from measuring consolidated debt security assets and financial liabilities at fair value and amortized cost, respectively. We elected the fair value option for debt securities with a fair value of $305 and a fair value adjustment of $(3) and financial liabilities with an amortized cost of $426 and fair value adjustment of $(51) as at January 1, 2010. We did not elect the fair value option for the CLOs because the consolidated loan assets and financial liabilities are both measured at amortized cost. The consolidation of the SL Capital Trusts did not have a material impact in our Consolidated Financial Statements. Section D xvi of this note includes additional disclosures related to these VIEs.

In January 2010, the FASB issued ASU 2010-06, *Improving Disclosures about Fair Value Measurements,* which provides amendments to ASC Topic 820, *Fair Value Measurements and Disclosures*. The new disclosures required include disclosure of the amounts of significant transfers between Levels 1 and 2 and the reasons for those transfers, the reasons for any transfers in or out of level 3 and information about purchases, sales, issuances and settlements for the reconciliation of Level 3 measurements. It also clarifies the disclosure requirements regarding the level of disaggregation and valuation techniques. The amended disclosures, with the exception of the information regarding purchases, sales, issuances and settlements in the Level 3 reconciliation, are required to be included in the 2010 Consolidated Financial Statements. We have included the required disclosure in Note 5 since Canadian GAAP required this disclosure in 2009.

In March 2010, the FASB issued ASU 2010-11, *Scope Exception Related to Embedded Credit Derivatives*, an amendment to Topic 815, *Derivatives and Hedging*. It addresses the application of the embedded derivative scope exception, which only applies to the transfer of credit risk in the form of subordination of one financial instrument to another. The new standard also clarifies how to analyze embedded credit derivative features, including those in CDOs, credit-linked notes ("CLNs"), synthetic CDOs and CLNs and other synthetic securities and whether they require to be accounted for separately. The standard permits a one-time election of the fair value option to the entire hybrid instrument at the adoption of this standard. We adopted the new standard on July 1, 2010 and elected the fair value option to measure our investment in securities issued by the synthetic CDOs at fair value, with changes in fair value recognized in earnings. Our investments in scope of the new standard are $89 of securities issued by synthetic CDOs. Upon adoption of the new standard we reclassified from accumulated other comprehensive income to retained earnings of an after-tax gross loss of $21. There was no gross gain.

In July 2010, the FASB issued ASU 2010-20, *Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which amends ASC Topic 310, *Receivables*. The amendments require that an entity provide a greater level of disaggregated information about the credit quality of the entity's financing receivables and allowance for credit losses to provide financial statement users with greater transparency about these items. It also requires disclosure of credit quality indicators and the aging of past due information for its financing receivables. The adoption of this standard did not have a material impact to our Consolidated Financial Statements.

Future U.S. GAAP Accounting and reporting changes

Transition to International Financial Reporting Standards

The United States Securities and Exchange Commission has issued amendments to its rules that will allow us, subject to certain conditions, to eliminate the reconciliation of Canadian GAAP to U.S. GAAP from the notes to our Consolidated Financial Statements upon adoption of IFRS on January 1, 2011. As a result, we expect to no longer include this reconciliation in our future Consolidated Financial Statements and have not included disclosure on future changes to U.S. GAAP and their potential impact to our U.S. GAAP results.

26.D Additional information required to be reported under U.S. GAAP

26.D.i Realized gains (losses) on sales of available-for-sale securities included in net realized gains:

For the years ended December 31	**2010**	2009	2008
Bonds:			
Gross realized gains	**$ 447**	$ 353	$ 264
Gross realized losses	**$ (202)**	$ (348)	$ (1,161)
Stocks:			
Gross realized gains	**$ 143**	$ 230	$ 116
Gross realized losses	**$ (45)**	$ (410)	$ (229)

26.D.ii Change In net gains (losses) included In Net investment income (loss) for securities classified as held-for-trading:

For the years ended December 31	**2010**	2009	2008
Bonds	**$ 776**	$ 2,150	$ (3,492)
Stocks	**$ 124**	$ 219	$ (465)

26.D.iii Real estate:

The depreciation expense included in U.S. GAAP other expenses is as follows:

For the years ended December 31	**2010**	2009	2008
Depreciation expense	**$ 61**	$ 61	$ 67

26.D.iv Derivatives:

We use different accounting policies for net investment hedges in Cdn. and U.S. GAAP as described below:

Net investment hedges

We designate net investment hedges consistently in both Cdn. and U.S. GAAP. However, we use different accounting policies for these hedges. Under Cdn. GAAP, changes in fair value of these hedging derivatives, along with interest earned and paid on the swaps, are recorded to the foreign exchange gains and losses in OCI, offsetting the respective exchange gains or losses arising from the underlying investments. Under U.S. GAAP, only the spot rate changes on the hedging derivatives are recorded to the foreign exchange gains and losses in OCI to offset the respective exchange gains or losses arising from the underlying investments. The remainder of the changes in fair value, along with interest earned and paid, are recorded in net income. For the years ended December 31, 2010, 2009 and 2008, we recorded $113, $335 and $(451), respectively, to the foreign exchange gains (losses) in OCI, net of taxes, for U.S. GAAP purposes.

26.D.v Other-Than-Temporary-Impairment ("OTTI"):

Bonds

As described in Note 26B, we present and disclose OTTI in accordance with FASB ASC Topic 320, beginning on April 1, 2009. Securities whose fair value is less than their carrying amount are considered to be impaired and are evaluated for potential other-than-temporary impairment. If we intend to sell, or if it is more likely than not that we will be required to sell an impaired security prior to recovery of its cost basis, the security is considered other-than-temporarily impaired and we record a charge to earnings for the full amount of impairment (the difference between the current carrying amount and fair value of the security). Otherwise, losses on securities which are other-than-temporarily impaired are separated into two categories, namely, credit loss and non-credit loss. The credit loss portion is charged to net realized gains (losses) in our Consolidated Statements of Operations, while the non-credit loss is charged to other comprehensive income (loss). When an unrealized loss on a fixed maturity is considered temporary, we continue to record the unrealized loss in other comprehensive income (loss) and not in earnings. To compute the credit loss component of OTTI for corporate bonds on the date of transition (April 1, 2009), both historical default (by rating) data, used as a proxy for the probability of default, and loss given default (by issuer) projections were applied to the par amount of the bond. For corporate bonds post-transition, the present value of future cash flows using the book yield is used to determine the credit component of OTTI. If the present value of the cash flow is less than the security's amortized cost then the difference is recorded as a credit loss. The difference between the estimates of the credit related loss and the overall OTTI was concluded to be the non-credit-related component.

For those securities where we do not have the intent to sell and it is not more likely than not that we will be required to sell, we employ a portfolio monitoring process to identify securities that are other-than-temporarily impaired. We have a Credit Committee comprised of professionals from our investment and accounting functions which meets at least quarterly to review individual issues or issuers that may be of concern. In determining whether a security is other-than-temporarily impaired, the Credit Committee considers the factors described below. The process involves a quarterly screening of all impaired securities, with particular attention paid to identify those securities whose fair value to amortized cost percentages have been less than 80% for an extended period of time. Discrete credit events, such as a ratings downgrade, are also used to identify securities that may be other-than-temporarily impaired. The securities identified are then evaluated based on issuer-specific facts and circumstances, such as the issuer's ability to meet current and future interest and principal payments, an evaluation of the issuer's financial position and its near term recovery prospects, difficulties being experienced by an issuer's parent or affiliate, and management's assessment of the outlook for the issuer's sector. In making these evaluations, the Credit Committee exercises considerable judgment. Based on this evaluation, issues or issuers are considered for inclusion on one of our following credit lists:

"Monitor List" – Management has concluded that our amortized cost will be recovered through timely collection of all contractually specified cash flows, but that changes in issuer-specific facts and circumstances require monitoring on a quarterly basis. No OTTI charge is recorded in our Consolidated Statements of Operations for unrealized losses on securities related to these issuers.

"Watch List" – Management has concluded that our amortized cost will be recovered through timely collection of all contractually specified cash flows, but that changes in issuer-specific facts and circumstances require continued monitoring during the quarter. A security is moved from the Monitor List to the Watch List when changes in issuer-specific facts and circumstances increase the possibility that a security may become impaired within the next 24 months. No OTTI charge is recorded in our Consolidated Statements of Operations for unrealized losses on securities related to these issuers.

"Impaired List" – This list includes securities that we have the intent to sell or more likely than not will be required to sell. In addition, it includes those securities for which management has concluded that our amortized cost will not be recovered due to expected delays or shortfalls in contractually specified cash flows. For these investments, an OTTI charge is recorded or the security is sold and a realized loss is recorded as a charge to income. Credit OTTI losses are recorded in our Consolidated Statement of Operations and non-credit OTTI losses are recorded in other comprehensive income (loss).

Structured securities, typically those rated single A or below, are subject to certain provisions in FASB ASC Topic 325, *Investments –Other,* previously issued as EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continued to Be Held by a Transferor in Securitized Financial Assets* . These provisions require us to periodically update our best estimate of cash flows over the life of the security. In the event that the fair value is less than the carrying amount and there has been an adverse change in the expected cash flows (as measured by comparing the original expected cash flows to the current expectation of cash flows, both discounted at the current effective rate), then an impairment charge is recorded to income. Estimating future cash flows is a quantitative and qualitative process that incorporates information received from third parties, along with assumptions and judgments about the future performance of the underlying collateral. Losses incurred on the respective mortgage-backed securities portfolios are based on expected loss models, not incurred loss models. Expected cash flows include assumptions about key systematic risks (e.g. unemployment rates, housing prices) and loan-specific information (e.g. delinquency rates, loan-to-value ratio).

There are inherent risks and uncertainties in management's evaluation of securities for OTTI. These risks and uncertainties include factors both external and internal to us, such as general economic conditions, an issuer's financial condition or near-term recovery prospects, market interest rates, unforeseen events which affect one or more issuers or industry sectors, and portfolio management parameters, including asset mix, interest rate risk, portfolio diversification, duration matching and greater than expected liquidity needs. All of these factors could impact management's evaluation of securities for OTTI.

For securities that are assessed to have incurred a credit loss, the amount of credit loss is calculated based upon the cash flows that we expect to collect given an assessment of the relevant facts and circumstances for the issuer and specific bond issue. Such factors include the financial condition, credit quality, and the near-term prospects of the issuer, as well as the issuer's relative liquidity, among other factors.

We recorded credit OTTI losses in our Consolidated Statements of Operations totalling $80 for the year ended December 31, 2010 ($167 in 2009) for OTTI on our available-for-sale bonds. The credit loss OTTI recorded during the year was concentrated in corporate bonds. These impairments were driven primarily by adverse financial conditions of the issuers.

The other-than-temporary impairment recognized for the years ended December 31 on available-for-sale bonds:

	2010	2009
Total other-than-temporary impairment recognized under Canadian GAAP	**$ 12**	$ 46
Total other-than-temporary impairment recognized under U.S. GAAP	**101**	474
Additional other-than-temporary impairment taken under U.S. GAAP	**89**	428
Less: non-credit portion of other-than-temporary impairment recognized in OCI	**21**	308
Additional net impairment losses recognized in the U.S. GAAP Consolidated Statements of Operations	**$ 68**	$ 120

The changes in credit losses on available-for-sale debt securities, recorded in OTTI and recognized in OCI is as follows:

Cumulative other-than-temporary impairment credit losses of available-for-sale debt securities:

	Total
Credit losses of other-than-temporarily impaired debt securities upon the adoption of Topic 320 (FSP FAS115-2 and 124-2) at transition as at April 1, 2009	512
Credit losses recognized in income on debt securities not previously impaired	119
Credit losses recognized in income on debt securities that have previously been impaired	2
Reductions due to securities sold	(253)
Balance, December 31, 2009	$ 380
Credit losses recognized in income on debt securities not previously impaired	**60**
Credit losses recognized in income on debt securities that have previously been impaired	**4**
Reductions due to securities sold	**(128)**
Effect of changes in currency exchange rates	**(22)**
Balance, December 31, 2010	**$ 294**

Stocks

All equity instruments in an unrealized loss position are reviewed quarterly to determine if objective evidence of impairment exists. Objective evidence of impairment for an investment in an equity instrument includes, but is not limited to, the financial condition and near-term prospects of the issuer, including information about significant changes with adverse effects that have taken place in the technological, market, economic or legal environment in which the issuer operates that may indicate that the carrying amount will not be recovered, and a significant or prolonged decline in the fair value of an equity instrument below its cost. If, as a result of this review, the security is determined to be other-than-temporarily impaired, it is written down to its fair value.

In addition to the review process described above, we applied presumptive impairment tests to determine whether there has been a significant or prolonged decline in the fair value of an equity instrument below its cost. Unless extenuating circumstances exist, all equity instruments exhibiting the following characteristics are presumed to be other-than-temporarily impaired and are written down to their fair value:

- Fair value less than cost for longer than 12 months;
- Fair value less than cost for longer than 6 months and fair value less than 60% of cost; or
- Fair value less than 50% of cost

In all circumstances, if we do not have the intent and ability to retain our investment in an equity instrument for a period of time sufficient to allow for the anticipated recovery of our cost, the instrument is written down to fair value.

For the year ended December 31, 2010, impairment charges of $23 ($352 in 2009), were recognized related to available-for-sale stocks.

26.D.vi Gross unrealized gains (losses) on available-for-sale bonds and stocks:

As at December 31, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)[1]	Estimated Fair Value
Issued or guaranteed by:				
Canadian federal government	$ 3,356	$ 100	$ (8)	$ 3,448
Canadian provincial and municipal governments	6,978	962	(68)	7,872
U.S. Treasury and other U.S. agencies	2,233	74	(26)	2,281
Other governments	3,390	448	(26)	3,812
Corporate	30,767	1,886	(511)	32,142
Asset-backed securities				
Commercial mortgage-backed securities	1,013	65	(42)	1,036
Residential mortgage-backed securities	430	22	(1)	451
Collateralized debt obligations	58	1	(11)	48
Other	390	2	(1)	391
Total bonds	$ 48,615	$ 3,560	$ (694)	$ 51,481

[1] The gross unrealized losses include the before tax non-credit OTTI loss of $227, that is recorded as a component of accumulated OCI for assets still held at the reporting date.

As at December 31, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)[1]	Estimated Fair Value
Issued or guaranteed by:				
Canadian federal government	$ 2,894	$ 78	$ (20)	$ 2,952
Canadian provincial and municipal governments	6,362	570	(101)	6,831
U.S. Treasury and other U.S. agencies	1,051	58	(18)	1,091
Other governments	2,562	252	(32)	2,782
Corporate	30,301	1,568	(1,001)	30,868
Asset-backed securities				
Commercial mortgage-backed securities	1,158	40	(115)	1,083
Residential mortgage-backed securities	552	23	(20)	555
Collateralized debt obligations	222	2	(31)	193
Other	86	2	(10)	78
Total bonds	$ 45,188	$ 2,593	$ (1,348)	$ 46,433

(1) The gross unrealized losses include the before tax non-credit OTTI loss of $617, that is recorded as a component of accumulated OCI for assets still held at the reporting date.

The gross unrealized gains (losses) on available-for-sale stocks are as follows:

	Original Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
As at December 31, 2010	**$ 3,554**	**$ 695**	**$ (26)**	**$ 4,223**
As at December 31, 2009	$ 3,253	$ 393	$ (10)	$ 3,636

26.D.vii Unrealized loss positions for which an OTTI has not been recognized:

The following table shows our investments' fair value and gross unrealized losses, which includes temporary unrealized losses and the portion of non-credit OTTI losses recognized in accumulated OCI, aggregated by investment category and length of time that individual available-for-sale securities have been in a continuous unrealized loss position, as at December 31, 2010. Our policies and procedures for determining which securities are other-than-temporarily impaired are included in Section Dv of this note.

As at December 31, 2010	**Less than 12 months**		**12 months or more**		**Total**	
Description of securities	**Fair Value**	**Unrealized (Losses)**	**Fair Value**	**Unrealized (Losses)**	**Fair Value**	**Unrealized Losses**
Bonds						
Issued or guaranteed by:						
Canadian federal government	**$ 2,158**	**$ (4)**	**$ 18**	**$ (4)**	**$ 2,176**	**$ (8)**
Canadian provincial and municipal governments	**80**	**(2)**	**250**	**(66)**	**330**	**(68)**
U.S. Treasury and other U.S. agencies	**553**	**(24)**	**26**	**(3)**	**579**	**(27)**
Other governments	**250**	**(9)**	**216**	**(17)**	**466**	**(26)**
Corporate	**4,561**	**(183)**	**3,093**	**(328)**	**7,654**	**(511)**
Asset-backed securities						
Commercial mortgage-backed obligations	**6**	**–**	**163**	**(42)**	**169**	**(42)**
Residential mortgage-backed securities	**24**	**–**	**3**	**(1)**	**27**	**(1)**
Collateralized debt obligations	**1**	**–**	**17**	**(11)**	**18**	**(11)**
Other	**85**	**–**	**10**	**–**	**95**	**–**
Stocks[1]	**233**	**(18)**	**50**	**(8)**	**283**	**(26)**
Total temporarily impaired securities	**$ 7,951**	**$ (240)**	**$ 3,846**	**$ (480)**	**$ 11,797**	**$ (720)**

(1) The stock position in an unrealized loss for 12 months or more relates to a single perpetual preferred security, which although classified as an equity, has significant debt-like characteristics. As such, we assess these securities for impairment by applying an impairment model similar to a debt security. Based on our assessment, we have concluded that there is no evidence of a deterioration in credit of the issuer and the security is not other-than-temporarily impaired.

As at December 31, 2010, a total of 1,849 debt securities and stocks were in an unrealized loss position, of which 1,222 were in a continuous loss position for less than 12 months and 627 positions for 12 months or more. Of the 1,811 debt securities, unrealized losses less than 12 months included 742 positions with an aggregate fair value of $2,568 (186 positions with an aggregate fair value of $197 for 12 months or more) having unrealized losses of less than one hundred thousand dollars per individual holding. A total of 38 stock positions were in a loss position as at December 31, 2010, of which 37 were in a continuous loss position for less than 12 months and 1 position for 12 months or more. Of the 37 stock positions, unrealized losses less than 12 months included 14 positions with an aggregate fair value of $45 having unrealized losses of less than one hundred thousand dollars per individual holding.

As at December 31, 2009	Less than 12 months		12 months or more		Total	
Description of securities	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized Losses
Bonds						
Issued or guaranteed by:						
Canadian federal government	$ 1,128	$ (17)	$ 19	$ (3)	$ 1,147	$ (20)
Canadian provincial and municipal Governments	1,945	(98)	71	(3)	2,016	(101)
U.S. Treasury and other U.S. agencies	283	(12)	24	(6)	307	(18)
Other governments	1,111	(27)	143	(5)	1,254	(32)
Corporate	3,581	(190)	4,935	(811)	8,516	(1,001)
Asset-backed securities						
Commercial mortgage-backed obligations	111	(2)	322	(113)	433	(115)
Residential mortgage-backed securities	42	–	26	(20)	68	(20)
Collateralized debt obligations	75	(14)	16	(17)	91	(31)
Other	4	–	21	(10)	25	(10)
Stocks	211	(10)	–	–	211	(10)
Total temporarily impaired securities	$ 8,491	$ (370)	$ 5,577	$ (988)	$ 14,068	$ (1,358)

As at December 31, 2009, a total of 2,135 debt securities were in an unrealized loss position, of which 916 were in a continuous loss position for less than 12 months and 1,219 positions for 12 months or more. Of the 2,135 debt securities, unrealized losses less than 12 months included 486 positions with an aggregate fair value of $1,653 (159 positions with an aggregate fair value of $200 for 12 months or more) having unrealized losses of less than one hundred thousand dollars per individual holding. A total of 48 stock positions were in a loss position as at December 31, 2009, of which 48 were in a continuous loss position for less than 12 months and no positions for 12 months or more. Of the 48 stock positions, unrealized losses less than 12 months included 21 positions with an aggregate fair value of $135 having unrealized losses of less than one hundred thousand dollars per individual holding.

26.D.viii 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:

	Future Income Tax Asset[1]		Future Income Tax Liability[1]	
As at December 31, 2010	**Cdn. GAAP**	**U.S. GAAP**	**Cdn. GAAP**	**U.S. GAAP**
Investments	**$ (60)**	**$ (53)**	**$ 552**	**$ 392**
Actuarial liabilities	**(87)**	**330**	**(216)**	**(287)**
Deferred acquisition costs	**297**	**(932)**	**(6)**	**649**
Losses available for carry forward	**637**	**635**	**(483)**	**(398)**
Other	**(35)**	**480**	**97**	**(257)**
Future tax asset/liability before valuation allowance	**752**	**460**	**(56)**	**99**
Valuation allowance	**(43)**	**(43)**	**136**	**67**
Total	**$ 709**	**$ 417**	**$ 80**	**$ 166**

	Future Income Tax Asset[1]		Future Income Tax Liability[1]	
As at December 31, 2009	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP
Investments	$ 319	$ (127)	$ 742	$ 23
Actuarial liabilities	(70)	1,471	(476)	70
Deferred acquisition costs	381	(1,674)	(5)	(39)
Losses available for carry forward	372	448	(249)	(173)
Other	77	588	(33)	156
Future tax asset/liability before valuation allowance	1,079	706	(21)	37
Valuation allowance	(25)	(25)	79	91
Total	$ 1,054	$ 681	$ 58	$ 128

[1] U.S. GAAP terminology is deferred income tax.

26.D.ix Acquisition:

We completed the acquisition of Lincoln U.K. on October 1, 2009 as described in Note 3. The following table shows the amounts of the assets, liabilities and goodwill at the dates of acquisition under Cdn. and U.S. GAAP. The amounts under each GAAP are different due to the different accounting policies used under each GAAP.

	Lincoln U.K.	
	Cdn. GAAP	U.S GAAP
Invested assets acquired	$ 1,249	$ 1,249
Other assets acquired[1]	88	276
Segregated funds assets acquired	–	6,629
	1,337	8,154
Actuarial liabilities and other policy liabilities acquired	1,058	1,100
Other liabilities acquired	72	58
Segregated funds liabilities acquired	–	6,629
	1,130	7,787
Net balance sheet assets acquired	$ 207	$ 367
Consideration:		
Cash cost of acquisition	$ 380[2]	$ 361
Transaction and other related costs	7	–
	$ 387	$ 361
Goodwill on acquisition	$ 180	$ (6)[3]

(1) Other assets acquired included value of business acquired of $190 under U.S. GAAP.
(2) Includes the cost to hedge the foreign currency exposure of the purchase price.
(3) Negative goodwill has been recognized in Net investment income (loss).

The following supplemental unaudited consolidated pro forma information has been prepared to give effect to the acquisition of Lincoln U.K., as if the transaction had been completed at the beginning of each year presented. The consolidated pro forma information is calculated by combining the results of our operations with those of Lincoln U.K. prior to the acquisition date. The consolidated pro forma information is not intended to reflect what would have actually resulted had the transaction been completed at the beginning of those years 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.

For the years ended December 31	2009	2008
Revenue	$ 20,138	$ 14,090
Total common shareholders' net income (loss) before realized gains	$ 2,541	$ 206
Net realized gains/(losses)	(154)	(954)
Common shareholders' net income (loss)	$ 2,387	$ (748)
Weighted average number of shares outstanding (in millions)	561	561
Basic earnings (loss) per share	$ 4.25	$ (1.33)
Common shareholders' net income (loss) on a diluted basis	$ 2,381	$ (762)
Weighted average number of shares outstanding on a diluted basis (in millions)	562	561
Diluted earnings (loss) per share	$ 4.24	$ (1.36)

The revenue of $60 and earnings of $13 from Lincoln U.K. since the closing date are included in the 2009 Consolidated Financial Statements.

26.D.x Disposition

We sold our life retrocession business on December 31, 2010, as described in Note 3. As a result of the different accounting policies under Canadian GAAP and U.S. GAAP, the loss on disposal (net of tax recovery of $17) was $155 under U.S. GAAP. Determination of the U.S. GAAP loss on disposal includes the reversal of value of business acquired, deferred acquisition costs, and goodwill.

26.D.xi Earnings per share:

Details of the calculation of the net income (loss) and the weighted average number of shares used in the earnings per share computations for the years ended December 31 are as follows:

	2010		2009		2008	
	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP	Cdn. GAAP	U.S. GAAP
Common shareholders' net income (loss)	$ 1,583	$ 1,391	$ 534	$ 2,324	$ 785	$ (749)
Less: Effect of stock awards of subsidiaries	12	12	6	6	14	14
Common shareholders' net income (loss) on a diluted basis	$ 1,571	$ 1,379	$ 528	$ 2,318	$ 771	$ (763)
Weighted average number of shares outstanding (in millions)	568	568	561	561	561	561
Add: Adjustments relating to the dilutive impact of stock options	2	2	1	1	1	–[1]
Weighted average number of shares outstanding on a diluted basis (in millions)	570	570	562	562	562	561

[1] For the year ended December 31, 2008, an adjustment of 1 million common shares related to the potential dilutive impact of stock options was excluded from the calculation of diluted earnings per share since their effect is anti-dilutive when a loss is reported.

26.D.xii 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:

For the years ended December 31	2010	2009	2008
Deposits and withdrawals reclassified to financing activities:			
Deposits to policyholders' accounts	$ 4,121	$ 5,519	$ 5,020
Withdrawals from policyholders' accounts	$ 6,227	$ 5,693	$ 7,076

26.D.xiii Liabilities for contract guarantees:

We offer 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, 2010, 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. Since there are limitations as to when these guarantees may be exercised, not all of these guarantees would be expected to be exercised immediately.

The table below represents information regarding our variable annuity and unit-linked pension contracts with guarantees as at December 31, 2010.

Benefit type	Account Balance	Net Amount at Risk	Weighted Average Attained Age of Contract Holders
Minimum death	$ 39,911	$ 2,692	63
Minimum income	$ 1,626	$ 1,455	54
Minimum accumulation, withdrawal and reinsured minimum income	$ 27,093	$ 935	62

The following summarizes the reserves for the minimum guaranteed death benefit and income benefit as at December 31:

	Minimum Guaranteed Death Benefit	Guaranteed Minimum Income Benefit	Total
Balance as at December 31, 2008	$ 303	$ 193	$ 496
Benefit ratio and assumption changes	(76)	23	(53)
Incurred guaranteed benefits	48	16	64
Paid guaranteed benefits	(114)	(23)	(137)
Interest	21	(1)	20
Effect of changes in currency exchange rates	(31)	(10)	(41)
Balance as at December 31, 2009	151	198	349
Benefit ratio and assumption changes	24	11	35
Incurred guaranteed benefits	32	1	33
Paid guaranteed benefits	(42)	(26)	(68)
Interest	11	52	63
Effect of changes in currency exchange rates	(8)	(17)	(25)
Balance as at December 31, 2010	$ 168	$ 219	$ 387

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 at the date of issue as the present value of all actual and expected contract benefit payments divided by the present value of all actual and expected contract charges.

Projected contract benefit payments and contract charges 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 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 and reinsured minimum income benefits that are net settled are considered to be derivatives under FASB ASC Topic 815, *Derivative and Accounting*, and are recognized at fair value through earnings. Liabilities for the guaranteed minimum accumulation and withdrawal benefits and reinsured income benefits were $646 and $936 as at December 31, 2010 and December 31, 2009, respectively.

26.D.xiv Disclosures relating to fair value measurements:

Please refer to Note 5Ai for fair value methodologies and assumptions. In addition, derivatives, such as guaranteed minimum accumulation benefits ("GMABs") and guaranteed minimum withdrawal benefits ("GMWBs"), which are embedded in certain insurance contracts, are required to be bifurcated and reported separately at fair value under U.S. GAAP. The fair value of these embedded instruments is determined using various valuation assumptions, including certain risk margins and our own credit standing, as well as assumptions regarding policyholder behaviour.

Financial instruments measured at fair value as of December 31, 2010 and 2009 are categorized and presented by the hierarchy level in Note 5Aiii. Additional financial assets and liabilities measured at fair value by the hierarchy level under FASB ASC Topic 820 are presented in the following tables:

As at December 31, 2010	Level 1[(1)]	Level 2	Level 3	Total
Segregated funds net assets	$ 43,187	$ 46,006	$ 543	$ 89,736
Embedded derivative liabilities	$ –	$ –	$ 786	$ 786

(1) There were no significant transfers between Level 1 and Level 2.

As at December 31, 2009	Level 1	Level 2	Level 3	Total
Segregated funds net assets	$ 38,303	$ 41,448	$ 787	$ 80,538
Embedded derivative liabilities	$ –	$ –	$ 1,093	$ 1,093

The following tables show a reconciliation of the beginning and ending balances for additional assets and liabilities which are categorized as level 3 under FASB ASC Topic 820 for the year ended December 31, 2010 and 2009.

For the year ended December 31, 2010	Beginning balance	Total realized and unrealized gains (losses)[2] Included in net income (loss)	Included in OCI	Purchases, issuances, and settlements (net)	Transfers in and/or (out) of level 3[1]	Ending balance	Change in unrealized gains (losses) included in earnings relating to instruments still held at the reporting date[2]
Segregated funds net assets	$ 787	$ (25)	$ (4)	$ (56)	$ (159)	$ 543	$ 10
Embedded derivative liabilities	$ 1,093	$ (638)	$ –	$ 331	$ –	$ 786	$ (112)

[1] Transfers in and/or (out) of level 3, $3 and $(162), respectively, during 2010 are primarily attributable to changes in the transparency of inputs used to price the securities.
[2] For liabilities, gains are indicated in negative numbers.

For the year ended December 31, 2009	Beginning balance	Total realized and unrealized gains (losses)[2] Included in net income (loss)	Included in OCI	Purchases, issuances, and settlements (net)	Transfers in and/or (out) of level 3[1]	Ending balance	Change in unrealized gains (losses) included in earnings relating to instruments still held at the reporting date[2]
Segregated funds net assets	$ 1,187	$ (81)	$ –	$ (277)	$ (42)	$ 787	$ 167
Embedded derivative liabilities	$ 2,469	$ (1,620)	$ –	$ 244	$ –	$ 1,093	$ (1,346)

[1] Transfers in and/or (out) of level 3 during 2009 are primarily attributable to changes in the transparency of inputs used to price the securities.
[2] For liabilities, gains are indicated in negative numbers.

26.D.xv Accounting for uncertainty in income taxes:

The liability for unrecognized tax benefits ("UTBs") related to permanent and temporary tax adjustments, exclusive of interest, was $242 as at December 31, 2010 ($707 as at December 31, 2009). Of this total, $219 ($419 as at December 31, 2009) of tax benefits would favorably affect our effective tax rate if the tax benefits were recognized in our Consolidated Financial Statements.

The net changes in the liability are as follows:

UTB balance as at January 1, 2009	$ 550
Increase (decrease) related to tax positions in prior year	(81)
Increase (decrease) related to tax positions in current year	281
Increase (decrease) related to foreign exchange movement	(43)
UTB balance as at December 31, 2009	$ 707
Increase (decrease) related to tax positions in prior year	(470)
Increase (decrease) related to tax positions in current year	19
Increase (decrease) related to foreign exchange movement	(14)
UTB balance as at December 31, 2010	**$ 242**

We record interest and penalties related to income taxes as a component of other expense in our Consolidated Statements of Operations. We have $24 of net interest and penalties accrued related to UTBs as at December 31, 2010 ($39 as at December 31, 2009). During 2010, we recorded a decrease of gross interest and penalties of $13 ($17 decrease in 2009) in our Consolidated Statements of Operations. The foreign exchange effect of the accrued interest is recorded in the currency translation account.

While the final outcome of the ongoing tax examinations is not yet determinable, we believe that an increase or decrease of the total amount of UTBs within the next 12 months would not materially impact our effective tax rate.

The following table summarizes, by major tax jurisdiction, the tax years that remain subject to examination by the relevant taxing authorities:

Tax Jurisdiction	Years Subject to Examination
Canada	2005 – forward
U.S.	2001 – forward
U.K.	2003 – forward

26.D.xvi Involvement in VIEs:

We are involved with various special purpose entities and other entities that are deemed to be VIEs primarily as a collateral manager and as an investor through normal investment activities, or as a means of accessing capital. A VIE is an entity that either has investors that lack certain essential characteristics of a controlling financial interest or lacks sufficient funds to finance its own activities without financial support provided by other entities.

We perform ongoing qualitative assessments of our VIEs to determine whether we have a controlling financial interest in the VIE and therefore are the primary beneficiary. We are deemed to have a controlling financial interest when we have both the ability to direct the activities that most significantly impact the economic performance of the VIE and the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. Based on our assessment, if we determine we are the primary beneficiary, we consolidate the VIE in our Consolidated Financial Statements.

Consolidated VIEs

The following table presents the carrying value of assets and liabilities, and the maximum exposure to loss relating to the VIEs for which we are the primary beneficiary. Creditors have no recourse against us in the event of default by the VIEs, nor do we have any implied or unfunded commitments to these VIEs. Our financial or other support provided to these VIEs is limited to our investment management services and original investment.

As a result of the amended consolidation guidance adopted on January 1, 2010 (see Section C of this note), a synthetic CDO VIE and CLO VIEs were consolidated in 2010 and are included in the following table, along with a synthetic CDO that was consolidated prior to the adoption of the amended guidance in 2010. Two CDOs reported in Section C of this note as part of the impact on our Consolidated Balance Sheet of adopting the amended consolidation guidance as at January 1, 2010, are not included in the following table because we divested of our original investment during the year and no longer have a controlling financial interest in these VIEs. These CDOs are included with the non-consolidated VIE disclosure that follows.

As at December 31, 2010	Total Assets	Total Liabilities	Maximum Exposure to Loss[1]
Synthetic CDO[2]	$ 61	$ 42	$ 62
CLOs[3]	283	247	61
Total	$ 344	$ 289	$ 123

(1) The maximum exposure to loss represents the maximum loss amount that we could recognize as a reduction in net investment income or as a realized capital loss and is the cost basis of our investment.

(2) Total Assets are included in Bonds – held-for-trading and Cash and cash equivalents, Total Liabilities are included in Other liabilities and Derivative liabilities in our Consolidated Balance Sheet.

(3) Total Assets are included in Mortgages and corporate loans and Derivative assets and Total Liabilities are included in Other liabilities and Derivative liabilities in our Consolidated Balance Sheet.

The synthetic CDOs represent structured investment vehicles for which we have a controlling financial interest as we provide collateral management services, earn a fee for those services and hold investments in the securities issued by the vehicles. CLOs represent structured investment vehicles for which we have a controlling financial interest as we provide investment management services, earn a fee for those services and hold investments in the securities issued by the vehicles.

In addition to the VIEs included in the preceding table, we have also used VIEs as a means of obtaining financing. These include the VIE that issued the senior financing described in Note 12D, which was consolidated prior to the amended consolidation guidance in 2010, and the SL Capital Trusts that issued the trust capital securities that are described in Note 11, which were consolidated on January 1, 2010 as a result of the adoption of the amended consolidation guidance. The consolidation of these VIEs resulted in the recognition of liabilities in our Consolidated Balance Sheets for the amounts borrowed through these VIEs.

Non-Consolidated VIEs

The following table presents the carrying value of assets and liabilities, and the maximum exposure to loss relating to significant VIEs for which we are not the primary beneficiary. We have no implied or unfunded commitments to these VIEs.

As at December 31, 2010	Assets	Liabilities	Maximum Exposure to Loss[1]
CDOs	$ 2,114	$ 2,114	$ –
CLO	28	28	1
Total	$ 2,142	$ 2,142	$ 1

[1] The maximum exposure to loss represents our investment in securities issued by CDOs and the CLO at cost.

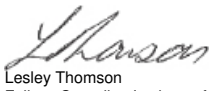
In addition, through normal investment activities, we make passive investments in structured securities issued by VIEs for which we are not the manager. These investments are included in Bonds – held-for-trading and Bonds – available-for-sale in our Consolidated Balance Sheets. We have not provided financial or other support with respect to these investments other than our original investment. For these investments, we have determined we are not the primary beneficiary due to the relative size of our investment in comparison to the principal amount of the structured securities issued by the VIEs, the level of credit subordination, which reduces our obligation to absorb losses or right to receive benefits, and our inability to direct the activities that most significantly impact the economic performance of the VIEs. Our maximum exposure to loss on these investments is limited to the amount of our investment.

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, 2010 and 2009 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.



Lesley Thomson
Fellow, Canadian Institute of Actuaries

Toronto, Canada
February 16, 2011

Report of Independent Registered Chartered Accountants

To the Shareholders and Board of Directors of Sun Life Financial Inc.

We have audited the accompanying Consolidated Financial Statements of Sun Life Financial Inc. and subsidiaries (the "Company"), which comprise of the Consolidated Balance Sheets and the separate Consolidated Statements of Segregated Funds Net Assets as of December 31, 2010 and 2009, and the Consolidated Statements of Operations, Equity, Comprehensive Income, Cash Flows and Changes in Segregated Funds Net Assets for each of the three years in the period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Consolidated Financial Statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements.

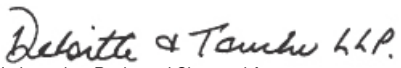
We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 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, 2010 and 2009, and their financial performance, their cash flows and the changes in their segregated funds net assets for each of the three years in the period ended December 31, 2010 in accordance with Canadian generally accepted accounting principles.

Other Matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2010, 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 16, 2011 expressed an unqualified opinion on the Company's internal control over financial reporting.



Independent Registered Chartered Accountants
Licensed Public Accountants
February 16, 2011
Toronto, Canada

Report of Independent Registered Chartered Accountants

To the Board of Directors and Shareholders of Sun Life Financial Inc.

We have audited the internal control over financial reporting of Sun Life Financial Inc. and subsidiaries (the "Company") as of December 31, 2010, based on the 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, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

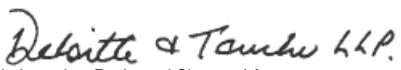
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material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

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, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, 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, 2010 of the Company and our report dated February 16, 2011 expressed an unqualified opinion on those financial statements.



Independent Registered Chartered Accountants
Licensed Public Accountants
February 16, 2011
Toronto, Canada

EXHIBIT 3

Annual Information Form

Sun Life Financial Inc.

For the Year Ended December 31, 2010

February 16, 2011



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The following table provides a list of abbreviations frequently used throughout this document.

Abbreviation	Description	Abbreviation	Description
AIF	Annual Information Form	**NAIC**	National Association of Insurance Commissioners, United States
FSA	United Kingdom Financial Services Authority	**OSFI**	Office of the Superintendent of Financial Institutions, Canada
GAAP	Generally Accepted Accounting Principles	**OSC**	Ontario Securities Commission
IFRS	International Financial Reporting Standards	**SEC**	United States Securities and Exchange Commission
ISDA	International Swaps and Derivatives Association, Inc.	**Sun Life Assurance**	Sun Life Assurance Company of Canada
MCCSR	Minimum Continuing Capital and Surplus Requirements	**SLF Inc.**	Sun Life Financial Inc.
MD&A	Management's Discussion & Analysis	**Sun Life (U.S.)**	Sun Life Assurance Company of Canada (U.S.)

Presentation of Information

In this AIF, SLF Inc. and its consolidated subsidiaries, significant equity investments and joint ventures are collectively referred to as "Sun Life Financial", the "Company", "we", "us" or "our".

Unless otherwise indicated, all information in this AIF is presented as at and for the year ended December 31, 2010, and amounts are expressed in Canadian dollars. Financial information is presented in accordance with Canadian GAAP and the accounting requirements of OSFI.

Documents Incorporated by Reference

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

(i) SLF Inc.'s MD&A for the year ended December 31, 2010, and

(ii) SLF Inc.'s Consolidated Financial Statements and accompanying notes ("Consolidated Financial Statements") for the year ended December 31, 2010.

These documents have been filed with securities regulators in Canada and with the SEC and may be accessed at www.sedar.com and www.sec.gov, respectively.

Forward-looking Information

Certain statements contained 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 information within the meaning of securities laws. Forward-looking information includes 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. 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 this AIF and the factors detailed in its other filings with Canadian and U.S. securities regulators, including its annual and interim MD&A, and annual and interim financial statements.

Factors that could cause actual results to differ materially from expectations include, but are not limited to, changes in

legislation and regulations including capital requirements and tax laws; investment losses and defaults and changes to investment valuations; the performance of equity markets; the cost, effectiveness and availability of risk-mitigating hedging programs; losses relating to real estate investments; the creditworthiness of guarantors and counterparties to derivatives; changes and volatility in interest rates and credit/swap spreads; other market risks including movement in credit spreads; risks relating to product design and pricing; market conditions that adversely affect the Company's capital position or its ability to raise capital; possible sustained economic downturn; 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 related to market liquidity; downgrades in financial strength or credit ratings; the ability to attract and retain employees; risks relating to financial modelling errors; the performance of the Company's investments and investment portfolios managed for clients such as segregated and mutual funds; the impact of mergers and acquisitions; insurance risks including mortality, morbidity, including the occurrence of natural or man-made disasters, pandemic diseases and acts of terrorism; adverse mortality and morbidity experience; uncertainty in the rate of mortality improvement; risks relating to policyholder behaviour; the inability to maintain strong distribution channels and risks relating to market conduct by intermediaries and agents; risks relating to operations in Asia including risks relating to joint ventures; the impact of competition; currency exchange rate fluctuations; business continuity risks; failure of information systems and Internet-enabled technology; breaches of computer security and privacy; dependence on third-party relationships including outsourcing arrangements; the impact of adverse results in the closed block of business; the potential for financial loss related to changes in the environment; the availability, cost and effectiveness of reinsurance; the ineffectiveness of risk management policies and procedures; the impact of higher-than-expected future expense cash flows; and the risks relating to the significant estimates and judgment in calculating taxes. The Company does not undertake any obligation to update or revise its forward-looking information to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events, except as required by law.

Corporate Structure

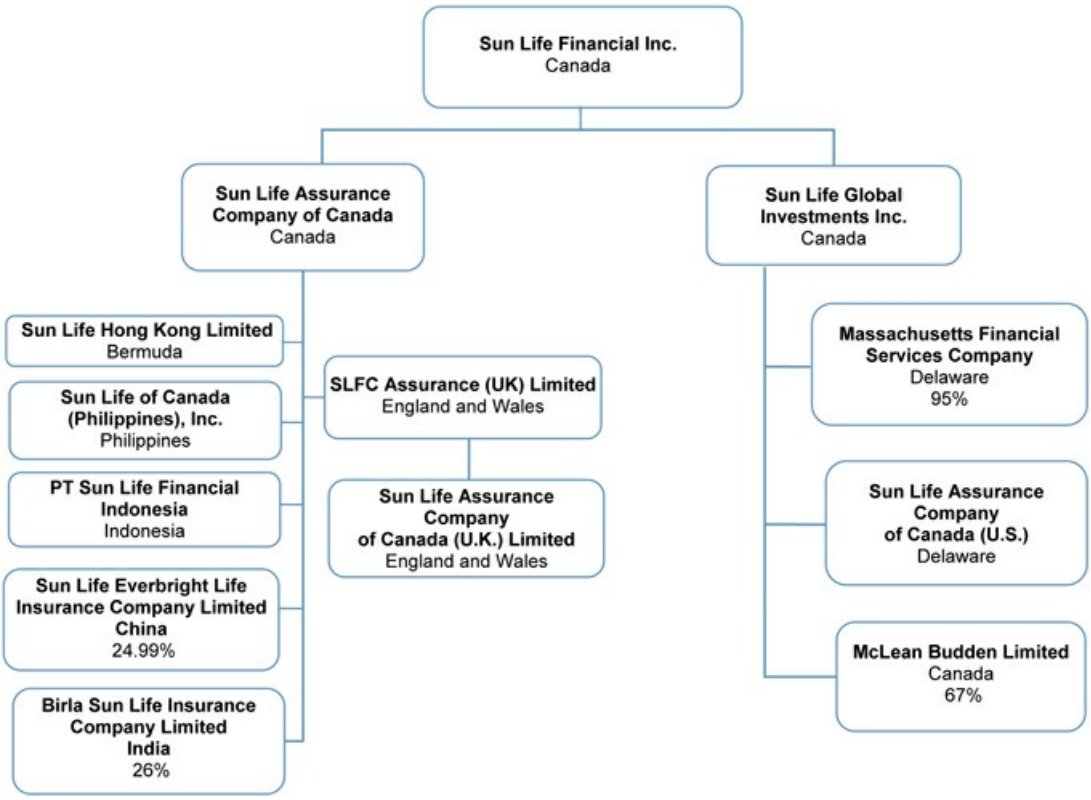
SLF Inc. was incorporated under the Insurance Companies Act, Canada ("the Insurance Act") on August 5, 1999, for the purpose of becoming the holding company of Sun Life Assurance following its demutualization.

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 a wholly-owned subsidiary of SLF Inc.

The head and registered office of SLF Inc. 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, 2010, including its principal direct and indirect subsidiaries and joint ventures, is shown below. Where a company is not a direct or indirect wholly owned subsidiary of SLF Inc. the following chart shows the percentage of voting securities that are beneficially owned or controlled by SLF Inc. Additional information on subsidiary and affiliate companies of SLF Inc. can be found in the Company's 2010 Annual Report.



General Development of the Business

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. We manage our operations and report our 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 our United Kingdom business unit ("SLF U.K.") and Corporate Support operations. Our Corporate Support operations includes our life reinsurance business, which we sold on December 31, 2010, and our run-off reinsurance business as well as investment income, expenses, capital and other items not allocated to other business segments.

The Company's business segments and the business units in each of these segments are shown below.

Business Segment	Business Units
SLF Canada	Individual Insurance & Investments Group Benefits Group Wealth
SLF U.S.	Annuities Individual Insurance Employee Benefits Group
MFS Investment Management	-
SLF Asia	-
Corporate	SLF U.K. Corporate Support

Our business model is one of balance, as we strive to establish scale and scope in each of the diversified markets in which we choose to compete. Our model weighs the higher growth prospects of operations in emerging markets against the more established businesses in mature markets. In a similar way, our protection business balances the relatively more volatile wealth management business. It also ensures that our customers have access to complementary insurance, retirement and savings products that meet their specific needs at every stage of their lives. In response to the changing economic and regulatory landscape, we have increased our focus on product designs that provide greater flexibility around pricing and benefits, lower capital requirements and improved longer-term opportunities for sustainable profitable growth. The following table shows our products by business segment.

Products	SLF Canada	SLF U.S.	MFS	SLF Asia	Corporate
Individual life insurance	¢	¢		¢	¢
Individual health insurance	¢			¢	
Individual annuity and savings	¢	¢		¢	¢
Group life and health	¢	¢		¢	
Group pension and retirement	¢			¢	
Mutual funds	¢		¢	¢	
Asset management	¢	¢	¢	¢	

Our focus on multi-channel distribution offers customers choices as to how and when they purchase products and access services.

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

Three Year History: Acquisitions, Disposals, and Other Developments

We assess our businesses and corporate strategies on an ongoing basis to ensure that we make optimal use of our capital and provide maximum shareholder value. The following summary outlines our major acquisitions and dispositions in the past three years. Additional information is provided in Note 3 to SLF Inc.'s 2010 Consolidated Financial Statements.

Disposition of CI Financial Income Fund

On December 12, 2008, we sold our 37% interest in CI Financial Income Fund to Bank of Nova Scotia for $2.2 billion. The proceeds included $1.55 billion in cash and the balance in common and preferred shares of Bank of Nova Scotia. An after-tax gain of $825 million was included in our 2008 financial results.

Acquisition of U.K. Business

On October 1, 2009, we acquired the United Kingdom operations of Lincoln National Corporation for $387 million. The acquisition increased Sun Life U.K.'s assets under management nearly 60% to $20 billion and doubled the number of policies in force to 1.1 million. The complementary operations of SLF U.K. and Lincoln National U.K. each held books of business in life insurance, pensions and annuities.

Sale of Reinsurance Business

On December 31, 2010, we completed the sale our life reinsurance business. The transaction is part of our strategy to deploy capital to parts of our business that can best achieve strong sustainable growth. The sale increased Sun Life Assurance's MCCSR by 14 points, and did not have a material impact on net income in 2010.

Other Developments

On February 29, 2008, we sold Sun Life Retirement Services (U.S.), Inc., a 401(k) plan administration business in the United States. The sale had no material effect on the 2008 financial results.

On July 15, 2009, Sun Life Financial and CIMB Group received regulatory approval to form a joint venture to distribute our life, accident and health insurance products through the 600-plus retail branches of PT Bank CIMB Niaga in Indonesia.

On July 20, 2010, Sun Life Everbright Life Insurance Company Limited ("Sun Life Everbright") was restructured as a domestic insurance company. Under the restructuring of our joint venture with China Everbright Group Company, additional strategic investors were introduced, which reduced our ownership in Sun Life Everbright from 50% to 24.99%.

On December 31, 2010, Sun Life Assurance entered into an external reinsurance agreement for the insured business in SLF Canada's Group Benefits operations. The implementation of this agreement resulted in an increase in Sun Life Assurance's MCCSR ratio by 12 points and had no impact on net income in 2010.

Business of Sun Life Financial

Information about our business and operating segments, our products and methods of distribution, risk management policies and investment activities, is included in SLF Inc.'s 2010 MD&A which is incorporated by reference in this AIF.

Protection and Wealth Businesses

The global financial services industry continues to evolve rapidly in response to demographic and economic trends. The aging 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 straining existing health care systems, as a larger portion of the population is expected to require health care services over a longer timeframe. Demand for products such as long-term care and critical illness insurance is growing as consumers turn to products that help ensure direct access to a range of health care services. Concern about the adequacy of public pension plans and employer funded retirement plans is continuing to provide growth in other financial vehicles that address baby boomers' concerns about the need for adequate resources and safeguards against market volatility in retirement.

In the emerging markets of Asia, demand for a wide variety of financial products, including protection, savings and investment vehicles is growing strongly driven by the rising affluence of consumers, further urbanization and regional demographic changes such as the aging population in China. Furthermore, these markets are expected to grow much faster than the industrialized countries as penetration rates there are much lower.

Competition

The markets in which Sun Life Financial engages are highly competitive. We are not only competing against other 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, financial strength 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. As a result of consolidation in the Canadian insurance industry in the past decade, the three largest companies serve more than two-thirds of the Canadian insurance market. In the United States, the market is more fragmented and unsettled. With the ongoing economic weakness and changing regulations, the prospect for substantial industry consolidation remains uncertain as insurers re-focus their operations on strategically important businesses and divest non-core lines of business.

Seasonality

Certain lines of our business are subject to seasonal factors. In Canada, sales of investment products spike during the first quarter of the year due to a contribution deadline for Registered Retirement Savings Plan. Timing of sales campaigns also influences sales of individual products in Canada. In the U.S., the sales pattern of our group life and health business largely reflects the renewal timing of employee benefit plans of our corporate clients, many of which begin January 1st each year. This often results in higher sales in the fourth quarter. In India, the sales of individual products through our insurance joint venture usually peak in the first quarter of each year due to tax planning. Overall, the impact of seasonal trends is not material to Sun Life Financial.

Number of Employees

As at December 31, 2010, we had 14,755 full-time equivalent employees across our operations excluding joint ventures.

Business Segment	Employees
SLF Canada	5,472
SLF U.S.	3,082
MFS	1,654
SLF Asia	1,587
Corporate	2,960

Environmental Commitment

We are committed to the principle of sustainability in the conduct of our business, which means we meet present needs in a responsible manner without comprising the ability of future generations to meet their needs. This commitment, and the expectation that we strive to conduct business in a way that helps reduce our environmental footprint, is set out in our Code of Business Conduct which applies to all employees and directors. In 2008, we formed an International Sustainability Council composed of senior representatives from key functions across the organization with the mandate to review our current practices, examine benchmarks, establish targets, identify opportunities and recommend new policies and initiatives. The International Sustainability Council meets quarterly and reports progress to the Company’s senior executive management. Our sustainability initiatives focus on accelerating our move to cleaner, greener, socially-responsible practices in our business, from the way we manage our buildings and improve the environment in our offices, to introducing new methods of reducing paper in our dealings with customers, to investing in projects of environmental and social value including clean and renewable energy and social infrastructure projects such as hospitals, schools and roads.

Capital Structure

General

SLF Inc.'s authorized capital consists of unlimited numbers of common shares ("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 of Directors 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. Additional information concerning SLF Inc.'s capital structure is included in SLF Inc.'s 2010 MD&A under the heading Capital and Liquidity Management and in Note 10 to SLF Inc.'s 2010 Consolidated Financial Statements.

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.

On February 10, 2011, SLF Inc. had 574,448,184 common shares issued and outstanding, which are listed on the Toronto, New York and Philippines stock exchanges, under the ticker symbol "SLF".

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.

The following table provides information on SLF Inc.'s issued and outstanding Class A Preferred Shares. These Class A Preferred Shares are listed on the Toronto Stock Exchange.

Class A Preferred Shares

Series	Number of Shares Issued	TSX [1] Ticker Symbol	Quarterly Dividend ($)	Early Redemption Date	Prospectus Date
Series 1	16,000,000	SLF.PR.A	0.296875	March 31, 2010	February 17, 2005
Series 2	13,000,000	SLF.PR.B	0.300000	September 30, 2010	July 8, 2005
Series 3	10,000,000	SLF.PR.C	0.278125	March 31, 2011	January 6, 2006
Series 4	12,000,000	SLF.PR.D	0.278125	December 31, 2011	October 2, 2006
Series 5	10,000,000	SLF.PR.E	0.281250	March 31, 2012	January 25, 2007
Series 6R	10,000,000	SLF.PR.F	0.375000	June 30, 2014	May 8, 2009
Series 8R	11,200.000	SLF.PR.G	0.271875	June 30, 2015	May 13, 2010

[1] Toronto Stock Exchange ("TSX")

The shares in each series of Class A Preferred Shares were issued for $25 per share and holders are entitled to receive the non-cumulative quarterly dividends outlined in the preceding table. Subject to regulatory approval, SLF Inc. may redeem these shares on or after the early redemption dates noted above, in whole or in part at a declining premium.

Additional information concerning these shares is contained in the prospectus under which the shares were issued, 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. No Class B Preferred Shares have been issued.

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 2010:

Common Shares

	Price ($)			Trading volume
	High	Low	Close	(thousands)
January	33.15	30.33	31.23	24,765
February	32.07	29.60	30.00	25,423
March	33.46	29.85	32.67	35,831
April	33.14	29.76	29.87	27,396
May	31.21	28.00	30.27	40,427
June	31.14	27.62	27.96	36,218
July	29.40	25.88	28.92	31,107
August	29.47	23.58	25.04	42,356
September	28.11	25.24	26.92	40,319
October	28.97	26.28	28.86	24,899
November	29.71	27.63	27.70	35,470
December	30.77	27.75	30.11	29,108

Class A Preferred Shares

	Series 1				Series 2			
	Price ($)			Trading volume	Price ($)			Trading volume
	High	Low	Close	(thousands)	High	Low	Close	(thousands)
January	21.00	20.57	20.70	130	21.14	20.53	20.76	343
February	20.79	19.74	19.75	170	20.84	19.86	19.93	189
March	20.00	18.85	19.00	569	20.00	19.16	19.28	408
April	19.34	18.29	18.59	383	19.46	18.54	18.70	465
May	18.96	18.32	18.65	230	18.95	18.22	18.75	239
June	20.03	18.62	19.90	359	20.24	18.74	20.02	246
July	20.19	19.67	20.13	203	20.48	19.92	20.26	147
August	20.54	19.75	20.03	443	20.51	19.67	20.19	336
September	21.54	19.99	21.34	325	21.80	20.15	21.59	414
October	21.87	21.18	21.77	301	22.00	21.48	21.99	198
November	22.94	21.60	21.95	381	23.16	21.89	22.05	356
December	21.99	20.63	21.82	429	22.20	20.83	22.09	279

	Series 3				Series 4			
	Price ($)			Trading volume	Price ($)			Trading volume
	High	Low	Close	(thousands)	High	Low	Close	(thousands)
January	19.58	19.00	19.42	242	19.53	19.05	19.33	375
February	19.38	18.80	18.81	297	19.40	18.75	18.88	219
March	18.90	17.87	17.93	380	18.88	17.85	17.94	303
April	18.10	17.19	17.44	297	18.25	17.30	17.46	358
May	17.54	16.98	17.35	365	17.53	17.02	17.45	341
June	18.54	17.43	18.42	529	18.64	17.37	18.40	460
July	19.20	18.40	18.81	339	18.90	18.36	18.90	383
August	19.12	18.57	18.80	169	19.09	18.50	18.67	214
September	20.40	18.73	19.95	451	20.34	18.65	20.05	246
October	20.68	19.95	20.58	455	20.60	20.03	20.55	484
November	21.78	20.60	20.68	271	21.79	20.51	20.65	353
December	20.58	19.31	20.37	273	20.58	19.33	20.36	512

	Series 5				Series 6R			
	Price ($)			Trading volume	Price ($)			Trading volume
	High	Low	Close	(thousands)	High	Low	Close	(thousands)
January	20.05	19.15	19.74	175	28.09	27.45	27.59	146
February	19.71	18.81	18.99	165	27.98	27.30	27.50	173
March	18.91	18.00	18.24	310	28.10	27.40	27.40	436
April	18.24	17.50	17.60	301	27.55	26.27	26.80	435
May	17.65	17.14	17.62	294	27.10	26.51	26.51	121
June	18.75	17.72	18.68	136	27.31	26.42	26.89	211
July	19.08	18.63	18.96	154	28.01	26.95	27.65	247
August	19.44	18.89	18.98	250	27.99	27.40	27.55	320
September	20.48	18.91	20.20	206	27.77	27.42	27.50	356
October	20.89	19.99	20.84	190	27.85	27.29	27.55	265
November	21.90	20.74	20.80	403	28.15	27.10	27.57	212
December	20.75	19.54	20.60	326	27.59	26.60	27.55	115

	Series 8R			
	Price ($)			Trading volume
	High	Low	Close	(thousands)
January	-	-	-	-
February	-	-	-	-
March	-	-	-	-
April	-	-	-	-
May	24.75	24.35	24.50	807
June	25.05	24.26	25.00	462
July	26.50	24.95	25.59	503
August	25.79	25.25	25.40	271
September	26.45	25.40	25.65	338
October	26.10	25.21	25.40	241
November	26.50	25.35	25.70	296
December	26.02	24.95	26.02	202

Sales of Unlisted Securities

SLF Inc. has not issued any securities that are not listed or quoted on a marketplace since January 1, 2010.

Dividends

The declaration, amount and payment of dividends by SLF Inc. is subject to the approval of its Board of Directors and is dependent on the Company's results of operations, financial condition, cash requirements, regulatory and contractual restrictions and other factors considered by the Board of Directors.

The dividends declared by SLF Inc. in the three years ended December 31 are shown below.

	2010	2009	2008
Common Shares	$1.44	$1.44	$1.44
Class A Preferred Shares			
Series 1	$1.187500	$1.187500	$1.187500
Series 2	$1.200000	$1.200000	$1.200000
Series 3	$1.112500	$1.112500	$1.112500
Series 4	$1.112500	$1.112500	$1.112500
Series 5	$1.125000	$1.125000	$1.125000
Series 6R	$1.500000	$0.921580	-
Series 8R	$0.653245	-	-

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 pursuant to subsection 515(3) of the Insurance Act regarding its capital or liquidity. 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.

As a holding company, SLF Inc. depends primarily on the receipt of funds from its subsidiaries to pay shareholder dividends, interest 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 ("SLEECS") issued by Sun Life Capital Trust and Sun Life Capital Trust II, 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 (in the case of the SLEECS issued by Sun Life Capital Trust) or six month (in the case of SLEECS issued by Sun Life Capital Trust II) 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. Sun Life Assurance has not issued any shares that 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 if Sun Life Assurance's MCCSR ratio, determined in accordance with OSFI requirements, is less than 120%.

Security Ratings

SLF Inc.'s Class A Preferred Shares, senior unsecured debentures, and subordinated unsecured debentures are rated by independent rating agencies. Security ratings assigned to securities by the rating agencies are not a recommendation to purchase, hold or sell these securities 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.

During the second quarter of 2010, Standard & Poor's ("S&P") downgraded the long term counterparty credit (debt) ratings on SLF Inc. from A+ (with negative outlook) to A (with negative outlook) based on weaker than expected operating earnings and expected future pressure on capital. At the same time, S&P lowered by one notch its security credit ratings on SLF Inc.'s senior and subordinated debentures and preferred shares. The table below provides the most recent security ratings for the Company.

Security Ratings

	DBRS[1]		S&P[2]		Moody's[3]		Fitch[4]	
	Rating	Rank[5]	Rating	Rank[5]	Rating	Rank	Rating	Rank[5]
Class A Preferred Shares Series 1 to 8R	Pfd-1(low)	1 of 6	P-2(high) /BBB+	2 of 8/ 3 of 9	Baa2	9 of 10	BBB[6]	9 of 10
Senior Unsecured Debentures Series A to D	AA (low)	2 of 8	A	6 of 10	NR[7]		A-	7 of 10
Subordinated Unsecured Debentures Series 2007-1, Series 2008-1, Series 2008-2 and Series 2009-1	A(high)	3 of 8	A-	7 of 10	NR[7]		BBB+	8 of 10

[1] DBRS Limited
[2] Standard & Poor's, a division of McGraw-Hill Companies
[3] Moody's Investors Service has only provided a rating for SLF Inc.'s Class A Preferred Shares Series 2
[4] We do not participate in Fitch's rating process, or provide additional information to Fitch, beyond our available public disclosures
[5] Rank represents security rating position in investment grade ratings scale
[6] On January 29, 2010, Fitch Ratings downgraded over 200 preferred and hybrid capital instruments of issuers in the insurance sector; as part of this exercise SLF Inc.'s Class A Preferred Shares were downgraded one notch from BBB+ to BBB.
[7] Not Rated

DBRS Limited ("DBRS")

The DBRS long-term rating scale provides an opinion on the risk of default. That is, the risk that an issuer will fail to satisfy its financial obligations in accordance with the terms under which an obligation has been issued. Ratings are based on quantitative and qualitative considerations relevant to the issuer, and the relative ranking of claims. DBRS rating scale consists of eight rating categories, and "high" and "low" designations indicate standing within the major rating categories.

The DBRS preferred share rating scale is used in the Canadian securities market and is meant to give an indication of the risk that a borrower will not fulfill its full obligations in a timely manner, with respect to both dividend and principal commitments.

Preferred shares rated Pfd-1, the highest of the six rating categories used by DBRS, are of superior credit quality and are supported by entities with strong earnings and balance sheet characteristics. Reference to "high" and "low" designations indicate standing within the major rating categories.

The AA rating category is the second highest of the eight rating categories used by DBRS. AA ratings, reflecting a superior credit quality, are assigned to issues when the capacity for the payment of financial obligations is considered high. Credit quality differs from AAA, the highest possible rating category, only to a small degree, and significant vulnerability to future events is unlikely. The A rating category is the third highest of the eight rating categories used by DBRS. A ratings, reflecting a good credit quality, are assigned to issues when the capacity for the payment of financial obligations is substantial, but of lesser credit quality than AA, and the issue may be vulnerable to future events, but qualifying negative factors are considered manageable.

Standard & Poor's ("S&P")

S&P has Canadian and global rating scales for preferred shares. A Standard & Poor's preferred share rating on the Canadian scale is a forward-looking opinion about the creditworthiness of an obligor with respect to a specific preferred share obligation issued in the Canadian market, relative to preferred shares issued by other issuers in the Canadian market. The Canadian scale rating is fully determined by the applicable global scale rating, and there are no additional analytical criteria associated with the determination of ratings on the Canadian scale. S&P presents an issuer's preferred share ratings on both the global rating scale and on the Canadian national scale when listing the ratings for a particular issuer. The BBB rating category is the third highest of the nine categories used by S&P on its global preferred share scale. The P-2 rating category is the second highest of the eight categories used by S&P on its Canadian preferred share scale. S&P uses "high" and "low" designations to show relative standing within the major rating categories.

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 A rating indicates that the obligor's capacity to meet its financial commitment is strong. S&P uses + or - designations to indicate the relative standing of securities within a particular rating category.

Moody's Investors Service

Moody's long-term obligation ratings are opinions of the relative credit risk of financial obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honoured as promised. Such ratings reflect both the likelihood of default and any financial loss suffered in the event of default. Obligations rated Baa are subject to moderate credit risk. They are considered medium grade and as such may possess certain speculative characteristics. Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Fitch Ratings

Fitch's credit ratings provide an opinion on the relative ability of an entity to meet financial commitments, such as interest, preferred dividends, repayment of principal, insurance claims or counterparty obligations. Fitch's credit ratings do not directly address any risk other than credit risk. In particular, ratings do not deal with the risk of a market value loss on a rated security due to changes in interest rates, liquidity and other market considerations. The primary credit rating scales (those featuring the symbols AAA – D and F1 – D) are used for debt, preferred shares and financial strength ratings. An A rating denotes expectations of low default risk and the capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings. A BBB rating indicates that expectations of default risk are currently low and the capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity. The modifiers + or - may be appended to a rating to denote relative status within major rating categories.

Asset-backed Securities

Sun Life Financial has issued asset-backed securities in the past as part of its normal course of business. Details of Sun Life Financial's asset securitization program are presented in SLF Inc.'s 2010 MD&A under the Capital and Liquidity Management section under the heading Asset Securitizations.

Transfer Agents and Registrars

Common Shares

CIBC Mellon Trust Company is the principal Transfer Agent for SLF Inc's common shares. The central securities register is maintained in Toronto, Ontario, Canada.

Transfer Agent	
Canada	CIBC Mellon Trust Company P.O. Box 7010 Adelaide Street Postal Station Toronto, Ontario Canada M5C 2W9
Co-Transfer Agents	
United States	BNY Mellon Shareowner Services 480 Washington Boulevard Jersey City, NJ 07310-1900 United States
United Kingdom	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU United Kingdom
Philippines	The Hongkong and Shanghai Banking Corporation Limited HSBC Stock Transfer 7/F, HSBC Centre 3058 Fifth Avenue West Bonifacio Global City Taguig City, 1634, Philippines
Hong Kong	Computershare Hong Kong Investor Services Limited 17M Floor, Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong

Preferred Shares and Debentures

CIBC Mellon Trust Company is the transfer agent for SLF Inc.'s Class A Preferred Shares, and CIBC Mellon Trust Company c/o BNY Trust Company of Canada is the trustee and the registrar for SLF Inc.'s senior unsecured debentures, Series A, B, C and D and its subordinated debentures, Series 2007-1, Series 2008-1, Series 2008-2 and Series 2009-1. The registers for those securities are maintained in Toronto, Ontario, Canada.

Directors and Executive Officers

Board of Directors

At December 31, 2010, the Board of Directors of SLF Inc. had five standing committees: Audit Committee, Governance and Conduct Review Committee, Investment Oversight Committee, Management Resources Committee and Risk Review Committee.

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 2011. Each director of SLF Inc. is an independent director as defined in the Company's Director Independence Policy, 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
William D. Anderson Ontario, Canada	Corporate Director	2010	Audit Risk Review
John H. Clappison Ontario, Canada	Corporate Director	2006	Audit Risk Review
David A. Ganong, CM New Brunswick, Canada	Chairman, Ganong Bros. Limited	2002	Audit Governance and Conduct Review
Martin J. G. Glynn British Columbia, Canada	Corporate Director	2010	Audit Investment Oversight
Krystyna T. Hoeg Ontario, Canada	Corporate Director	2002	Management Resources Risk Review
David W. Kerr Ontario, Canada	Managing Partner, Edper Financial Group	2004	Investment Oversight Management Resources
Idalene F. Kesner Indiana, USA	Associate Dean of Faculty and Research and Frank P. Popoff Chair of Strategic Management, Kelley School of Business, Indiana University	2002	Investment Oversight Management Resources
Mitchell M. Merin New Jersey, USA	Corporate Director	2007	Investment Oversight Management Resources
Bertin F. Nadeau Quebec, Canada	Chairman and Chief Executive Officer, GescoLynx Inc.	1999	Governance and Conduct Review Management Resources
Ronald W. Osborne Ontario, Canada	Chairman, SLF Inc. and Sun Life Assurance	1999	Governance and Conduct Review
Hon. Hugh D. Segal, CM Ontario, Canada	Senator, Government of Canada	2009	Governance and Conduct Review Investment Oversight
Donald A. Stewart Ontario, Canada	Chief Executive Officer, SLF Inc. and Sun Life Assurance	1999	None
James H. Sutcliffe London, England	Corporate Director	2009	Audit Risk Review

Each director of SLF Inc. has been engaged for more than five years in his or her present principal occupation or in other capacities with the company or organization (or predecessor thereof) in which he or she currently holds his or her principal occupation, except: Mr. Glynn, who prior to his retirement in December 2006, was Chief Executive Officer, HSBC Bank USA; Ms. Hoeg, who prior to February 2007, was President and Chief Executive Officer of Corby Distilleries Limited; Mr. Kerr, who prior to August 2006, was Chairman of Falconbridge Limited; Senator Segal, who was also President, Institute for Research on Public Policy prior to May 2006, and Mr. Sutcliffe, who prior to September 2008, was Group Chief Executive Officer of Old Mutual plc.

Except as disclosed below, no director of SLF Inc. is or has been, in the last 10 years, a director, chief executive officer or chief financial officer of a company that, while that person was acting in that capacity, (a) was the subject of a cease trade

or similar order or an order that denied the company access to any exemption under Canadian securities legislation, for a period of more than 30 consecutive days, or (b) was subject to an event that resulted, after that person ceased to be a director, chief executive officer or chief financial officer, in the company being the subject of a cease trade or similar order or an order that denied the company access to any exemption under Canadian securities legislation, for a period of more than 30 consecutive days. No director of SLF Inc. is or has been, in the last 10 years, a director or executive officer of a company that, while that person was acting in that capacity or 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) Mr. Kerr became a director of Canwest Global Communications Corp. in 2007. In October 2009, it filed for protection under the Companies' Creditors Arrangement Act ("CCAA") and filed for recognition and ancillary relief under Chapter 15 of the Bankruptcy Code in the United States. Mr. Kerr is no longer a director of Canwest Global Communications Corp.

(ii) Professor Kesner was a director of Harriet & Henderson Yarns, Inc. until May 2003. In July 2003, it filed a voluntary petition under Chapter 11 of the Bankruptcy Code in the United States.

(iii) Mr. Ganong and Mr. Osborne were directors of Air Canada in April 2003, when it filed for protection under the CCAA. It successfully emerged from proceedings under the CCAA and was restructured according to a plan of arrangement in September 2004. Mr. Ganong and Mr. Osborne are no longer directors of Air Canada.

(iv) Mr. Osborne was a director of Nortel Networks Corporation and Nortel Networks Limited (collectively known as Nortel) when the OSC issued a management cease trade order on April 10, 2006, prohibiting all directors, officers and certain other current and former employees of Nortel from trading its securities until two business days after receipt by the OSC of all filings required under Ontario securities laws. The OSC issued the order because Nortel needed to restate certain financial results and was delayed in filing some of its 2005 financial results. The order was revoked as of June 8, 2006. Mr. Osborne is no longer a director of Nortel.

Audit Committee

The responsibilities and duties of the Audit 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 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 Committee as of the date of this AIF and their qualifications and education are set out below.

John H. Clappison (Chairman) 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 Institute of Chartered Accountants of Ontario School of Accountancy. Mr. Clappison joined the Board of Directors, the Audit Committee and the Risk Review Committee of SLF Inc. and Sun Life Assurance in 2006. In May 2010 he was appointed Chairman of the Audit Committee. Mr. Clappison is a director and chairman of the audit committee of Cameco Corporation and Inmet Mining Corporation and a director and member of the audit committee of Rogers Communications Inc. Until February 15, 2011 Mr. Clappison was a trustee and chairman of the audit committee of Canadian Real Estate Investment Trust. He is director of Summit Energy Holdings LLP, a private company, a board member of the Canadian Foundation for Facial Plastic and Reconstructive Surgery and a trustee of the Shaw Festival Theatre Endowment Foundation and Roy Thomson Hall and Massey Hall Endowment Foundation. Mr. Clappison is a member of the Canadian Audit Committee Network.

William D. Anderson is a Chartered Accountant who joined BCE Inc, the global telecommunications company, in 1991. He held progressively senior positions including Chief Financial Officer of BCE Inc. from 1998 to 2001, President of BCE Ventures, the strategic investment unit of BCE Inc., from 2001 to 2005, and Chairman and Chief Executive Officer of Bell

Canada International Inc. from 2000 to 2007. Prior to joining BCE, Mr. Anderson spent 17 years with the public accounting firm KPMG, where he was a partner for 11 years. He joined the Board of Directors, the Audit Committee and the Risk Review Committee of SLF Inc. and Sun Life Assurance in May 2010. Mr. Anderson serves as chairman of Nordion Inc. (formerly MDS Inc.), a director and chairman of the audit and risk committee of TransAlta Corporation and a director and chairman of the audit and finance committee of Gildan Activewear Inc. He became a Fellow of the Institute of Corporate Directors in June 2010.

David A. Ganong is Chairman of Ganong Bros. Limited, a confectionery manufacturer. Prior to July 2008, he was President of Ganong Bros. Limited. Mr. Ganong joined the Board of Directors of SLF Inc. and Sun Life Assurance in 2002. He served on the Risk Review Committee and the Management Resources Committee from 2002 to 2009, and the Governance and Conduct Review Committee from 2002 to 2006. Mr. Ganong joined the Audit Committee and re-joined the Governance and Conduct Review Committee in 2009. Mr. Ganong was a director of Air Canada from 1988 until 2004 and a director of New Brunswick and Canada Railway from 1985 to 2004. He is a member of the Board of Governors of The University of New Brunswick, a Canadian representative on the North American Competitiveness Council and a director of the Canadian Council of Chief Executives.

Martin J. Glynn joined the HSBC group, an international banking and financial services organization, in 1982. He held progressively senior positions during his 24-year career at HSBC. Mr. Glynn became Chief Operating Officer of HSBC Bank Canada in 1997, following which he was President and Chief Executive Officer of HSBC Bank Canada from 1999 to 2003 and President and Chief Executive Officer, HSBC Bank USA from 2003 until his retirement in 2006. Mr. Glynn joined the Board of Directors, the Audit Committee and the Investment Oversight Committee of SLF Inc. and Sun Life Assurance in December 2010. In addition to serving as a director of HSBC Bank Canada from 1999 to 2006, Mr. Glynn was Chairman from 2004 to 2006. He was also a director of HSBC Bank USA from 2000 to 2006. Mr. Glynn is a director of Husky Energy Inc., was a member of the audit committee from 2000 to 2010 and served as the chairman of the audit committee from 2002 to 2005. He is also a director and chairman of the audit committee of Hathor Exploration Limited. Mr. Glynn is a director and member of the audit committee of VinaCapital Vietnam Opportunity Fund Limited and was chairman of the audit committee from 2008 to 2009. He is a director and member of the audit and risk committee of MF Global Holdings Ltd. Mr. Glynn is on the board of the VGH and UBC Hospital Foundation and The American Associates of the National Galleries of Scotland. Mr. Glynn has a Masters of Business Administration degree and was the Jarislowsky Fellow in Business Management, Haskayne School of Business, University of Calgary, from September 2009 to April 2010.

James H. Sutcliffe is a Fellow of the Institute of Actuaries. He joined Prudential plc, an international retail financial services group, in 1976. During his 21 year career at Prudential, he held progressively senior positions in actuarial and management functions until he became Chief Operating Officer, UK in 1992 following which he became Chief Executive Officer, UK Home Office from 1993 to 1995 and Chief Executive Officer, UK from 1995 to 1997. Mr. Sutcliffe was the Deputy Chairman of Liberty International in 1998 and 1999. In 2000 he joined Old Mutual plc, an international savings and wealth management company, where from 2001 until his retirement in 2008, he was a director and Group Chief Executive Officer. He also served as a director of Nedbank Group Limited, a public company and a subsidiary of Old Mutual plc, from 2001 to 2008. Mr. Sutcliffe joined the Board of Directors, the Audit Committee and the Risk Review Committee of SLF Inc. and Sun Life Assurance in February 2009. In May 2010 he was appointed Chairman of the Risk Review Committee. He also serves on the board of directors of two of SLF Inc.'s subsidiaries in the United Kingdom and is Chairman of the risk and investment oversight committees and a member of the audit and compliance committees. Mr. Sutcliffe is the chairman of FxPro Financial Services Ltd., a director and a member of the audit committee and chairman of the remuneration committee of Lonmin plc, and a director and a member of the group audit and actuarial committee and the group risk committee of Liberty Holdings Limited. In June 2009, Mr. Sutcliffe was appointed as the Chairman of the UK Board for Actuarial Standards and as a director of the UK Financial Reporting Council. In September 2009, he was appointed as a Senior Advisor to the Global Financial Institutions Advisory Board of CVC Capital Partners. Mr. Sutcliffe is also a trustee of Buffelshoek Trust and Friends of Michael Sobell House, Mount Vernon Hospital in the United Kingdom.

SLF Inc.'s Board of Directors has determined that John H. Clappison 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

The following table sets out the Company's executive officers as at February 17, 2011.

Name	Province/State and Country of Residence	Position
Donald A. Stewart	Ontario, Canada	Chief Executive Officer
Dean A. Connor	Ontario, Canada	Chief Operating Officer
Claude A. Accum	Massachusetts, USA	Executive Vice-President, Actuarial and Risk Management
Thomas A. Bogart	Ontario, Canada	Executive Vice-President, Business Development & General Counsel
Kevin P. Dougherty	Ontario, Canada	President, SLF Canada and President, Sun Life Global Investments
Colm J. Freyne	Ontario, Canada	Executive Vice-President and Chief Financial Officer
Stephen C. Peacher	Massachusetts, USA	Executive Vice-President and Chief Investment Officer
Mark S. Saunders	Ontario, Canada	Executive Vice-President and Chief Information Officer
Michael P. Stramaglia	Ontario, Canada	Executive Vice-President and Chief Risk Officer
Westley V. Thompson	Connecticut, USA	President, SLF U.S.

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 October 2009, Mr. Peacher was Managing Director, Head of Fixed Income and Liquidity Strategies at Columbia Management Group. Prior to March 2009, Mr. Saunders was Senior Technology Officer, Barclays Commercial Bank and prior to October 2006, he was Senior Vice President, Enterprise Infrastructure, BMO Financial Group. Prior to October 2008, Mr. Thompson was President, Employer Markets, Lincoln National Corporation and prior to April 2006 he was President and Chief Executive Officer, Lincoln Financial Distributors, Inc.

Jon A. Boscia was President, Sun Life Financial until December 31, 2010. Mr. Boscia will retire as an employee of the Company on March 11, 2011.

Code of Business Conduct

Our 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 all directors, officers and employees. The Sun Life Financial Code of Business Conduct may be accessed on the Sun Life Financial website at www.sunlife.com. It 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 Governance and Conduct Review Committee reviews the effectiveness of, and compliance with, the Code of Business Conduct, reports on its review to the Board of Directors on an annual basis, and makes recommendations on amendments as required. No waivers of the Code for directors or executive officers have been granted.

Shareholdings of Directors and Executive Officers

As at December 31, 2010, SLF Inc.'s directors and executive officers, as a group, owned, directly or indirectly, or had voting control or direction over 222,963 Common Shares of SLF Inc., or less than 1% of the total Common Shares outstanding.

Principal Accountant Fees and Services

The following table shows the fees related to services provided by the Company's external auditors for the past two years.

	Year Ended December 31 ($ millions)	
	2010	2009
Audit Services[1]	21.6	20.9
Audit-Related Services	2.2	3.1
Tax Services	0.4	-
Other Services	0.3	0.2

[1] The 2009 amount has been adjusted to include $0.9 million in fees relating to fiscal 2009 audits. These fees could not be estimated at the date of the Company's prior AIF.

Audit services relate to professional services rendered by the auditors for the audit of Sun Life Financial's annual consolidated financial statements, the statements for our segregated funds as well as services related to statutory and regulatory filings.

Audit-related services include assurance and services related to performing the audit or reviewing the annual consolidated financial statements that were not part of audit services. These include internal control reviews, consulting on financial accounting and reporting standards not arising as part of the audit, CFA Institute verifications and employee benefit plan audits.

Tax services relate to tax compliance, tax advice and tax planning.

Other services relate to products and services other than audit, audit-related and tax as 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 Committee in accordance with the policy in effect at the relevant time.

None of the services provided by the Company's external auditors described above were approved pursuant to the waiver of pre-approval provisions under SEC rules (paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X).

Interest of Experts

Deloitte & Touche LLP, Independent Registered Chartered Accountants and Licensed Public Accountants, are the external auditors of SLF Inc., and are independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

Lesley Thomson, the Appointed Actuary of SLF Inc., has provided an opinion on the value of policy liabilities for SLF Inc.'s consolidated balance sheet as at December 31, 2010 and 2009 and the change in the consolidated statements of operations for the years then ended. Ms. Thomson owned beneficially, directly or indirectly, less than 1% of all outstanding securities or other property of SLF Inc. or its affiliates when she prepared that opinion, or after that opinion was prepared, and she 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 government 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 networking arrangements, a broad range of financial services, including:

- banking services,
- investment counselling 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 out 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 supervision includes the ability to review insurance and non-insurance activities conducted by subsidiaries of SLF Inc. and 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 of OSFI 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, such as SLF, and certain of their qualified foreign life insurance company subsidiaries ("significant foreign life subsidiaries"), 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 these 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 (U.S.), is qualified as a significant foreign life subsidiary.

Sun Life Assurance is subject to the MCCSR rules on a consolidated basis. The MCCSR calculation involves using qualifying models or 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) changes in interest rate environment risk, (iv) segregated fund guarantee risk, (v) off-balance sheet activity exposure and (vi) foreign exchange risk. The total capital required is the sum of the capital required calculated for each of these six risk components. OSFI uses this total, in conjunction with the amount calculated as available capital, together with other considerations, in assessing the capital adequacy of Canadian life insurance companies. OSFI generally expects life insurance companies to maintain an MCCSR of 150% or greater.

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, the participating account, accumulated currency translation account, unrealized gains and losses on available-for-sales equities, qualifying preferred shares, innovative capital instruments and subordinated debt, unamortized deferred realized gains not taken into account in the valuation of liabilities[1] and a portion of actuarial liabilities related to future policyholder terminal dividends. 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 cash value deficiencies and credit taken on reserves on reinsurance ceded to unregistered reinsurers. OSFI may require that a higher amount of capital be available, taking into account factors such 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 insurer's changes, or to reflect other risks.

Sun Life Financial adopted IFRS as of January 1, 2011. The adoption of IFRS is expected to impact the level of available regulatory capital. The net impact to retained earnings from conversion to IFRS is recognized in available capital. OSFI's *Advisory on Conversion to International Financial Reporting Standards by Federally Regulated Entities* allows companies to elect to phase-in the net impact on adjusted net Tier 1 capital and negative reserves from the conversion to IFRS on a straight-line basis over 8 quarters ending December 31, 2012. The impact of IFRS conversion on the MCCSR of Sun Life Assurance, our principal operating subsidiary, in the initial reporting period is not expected to be material as we have elected the phase-in provision.

In December 2010, OSFI issued guidelines for segregated fund capital requirements for business written on or after January 1, 2011. The existing capital requirements will continue to apply to business written prior to January 1, 2011 until a new approach is developed. OSFI expects the review of the new approach to take several years, likely into 2013.

Proposed Changes to OSFI Capital and Surplus Requirements

OSFI has stated that it is considering a number of changes to the insurance company capital rules, including new guidelines to establish stand-alone capital adequacy requirements for operating life insurance companies, such as Sun Life Assurance, and that would update OSFI's regulatory guidance for non-operating insurance companies acting as holding companies, such as SLF Inc. In addition, it is expected that OSFI may align some insurance regulations with those that emerge for banks under the proposed new Basel Capital Accord. The outcome of these initiatives is uncertain and may impact our position relative to that of other Canadian and international financial institutions with which we compete for business and capital.

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.

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 of OSFI.

[1] Under IFRS, unamortized deferred realized gains will be reclassified to retained earnings.

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, 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 approval of the Minister of Finance, Canada). 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 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. any matters that, 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. We are licensed to carry on 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. This includes financial institutions notifying customers about their policies and practices relating to their collection and disclosure of customer information and their policies to protect the security and confidentiality of that information. These laws also regulate disclosure of customer information.

Anti-Money Laundering Legislation

The *Proceeds of Crime (Money Laundering) and Terrorist Financing Act,* Canada, contains measures to assist in detecting, deterring, and facilitating the investigation of money laundering and terrorist financing offences. This legislation and the associated regulations impose reporting, recordkeeping and "know your customer" obligations on SLF Inc. and certain of its subsidiaries.

Securities Laws

Certain of SLF Inc.'s subsidiaries in Canada, 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. The primary regulator of an insurance company, however, is located in its state of domicile. 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, and require statutory financial statements. The primary purpose of such regulation by the state insurance departments is for the benefit of policyholders and consumers, 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 authority to limit or prohibit the ability to issue new policies if, in their judgment, 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 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. In addition to the market conduct component of the periodic examinations, states will on occasion perform market conduct reviews that may cover, 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 NAIC.

SLF Inc. does not carry on business and is not regulated as an insurance company in the United States but 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. U.S. regulated insurance companies generally are subject to the insurance holding company laws and regulations in the states in which they are domiciled (or deemed to be commercially domiciled). SLF Inc.'s U.S. insurance subsidiaries are domiciled in Connecticut, Delaware, New York, Rhode Island, Texas and Vermont. Michigan is Sun Life Assurance's "state of entry" and it is treated as the state of domicile for Sun Life Assurance's U.S. branch ("the U.S. Branch") for purposes of the insurance holding company laws. As a special purpose financial captive insurance company, SLF Inc.'s Vermont insurance subsidiary is not subject to insurance holding company laws. Most states' insurance holding company laws generally require 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 with certain reports that include information concerning capital structure, ownership, financial condition, certain intercompany transactions and general business operations. In addition, 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 certain intercompany 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.

The U.S Branch is licensed to transact business 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 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 issued by Sun Life (U.S.), SLF Inc.'s Delaware domestic insurance company, affect its ability to pay dividends by requiring it to maintain certain levels of surplus. SLF Inc.'s Vermont domestic captive insurance company is permitted by the Vermont Insurance Commissioner to pay dividends or distributions from its capital and surplus only to the extent that its total adjusted capital following the payment exceeds specified risk-based capital levels.

NAIC IRIS Ratios

The NAIC has developed a set of financial relationships or "tests" known as the 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 with various degrees of supervision, ranging from increased monitoring to certain business limitations. For the 12 months ended December 31, 2009, the most recent period for which results are available, the U.S. Branch and SLF Inc.'s U.S. life insurance subsidiaries were within the usual ranges for most of the IRIS ratios. The ratios which were outside the usual ranges did not indicate any adverse solvency issues.

Risk-based Capital ("RBC") Requirements

All states have RBC requirements for insurance companies. The NAIC RBC system was created to provide a capital adequacy standard that is related to risk, raises a safety net for insurers, is uniform among the states, and provides regulatory authority for timely action. A separate RBC formula exists for each of the primary insurance types. The formula focuses on the material risks that are common for the particular insurance type. For life insurance, the formula considers asset risk, insurance risk, interest rate risk, and business risks, among others, by applying factors to various amounts presented in the company's statutory financial statements. For the year ended December 31, 2010, the RBC for the U.S. Branch and SLF Inc.'s U.S. life insurance subsidiaries exceeded the levels under which any remedial or regulatory action would be required.

Statutory Investment and Other Valuation Reserves

Under NAIC rules, life insurance companies must maintain an asset valuation reserve ("AVR"). These reserves are recorded for purposes of statutory accounting practices; they are not recorded under the provisions of Canadian GAAP and therefore have no impact on SLF Inc.'s reported results of operations or financial position. These reserves affect the determination of statutory surplus, and changes in such reserves may affect the ability of a U.S. life insurance subsidiary to pay dividends or other distributions to its parent and also may affect the amounts required to be maintained in trust by the U.S. Branch (see discussion below under Minimum Statutory Surplus and Capital). The size of the AVR, which is a provision for potential asset credit defaults, will depend upon future composition and results of the investment portfolios of the 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 the 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 the U.S. Branch'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.

The move toward a principles-based approach for determining reserves and regulatory minimum capital for life and variable annuity business continues in the United States. This approach uses more sophisticated model-based approaches that capture the wide range of risks in insurance products instead of static ratios and formulas for determining solvency requirements. The NAIC Variable Annuity Commissioners Annuity Reserve Valuation Method ("VACARVM") is a principles-based reserve standard designed to improve statutory reserving for variable annuity products with guaranteed death and living benefits. VACARVM was effective December 31, 2009. The U.S. life insurance industry and the NAIC continue to consider policy and practical issues related to principles-based regulation as well as the expansion of such regulation to other lines of business.

RBC for residential mortgage-backed securities and commercial mortgage-backed securities are determined using a financial model instead of credit ratings pursuant to an NAIC proposal first adopted for year-end 2009 reporting purposes. The process relies on proprietary models developed by outside vendors selected by the NAIC. While use of the model resulted in a modest adverse impact on the RBC ratios for the U.S. Branch and SLF Inc.'s U.S. life insurance subsidiaries, their RBC ratios as of December 31, 2010 continued to exceed the levels under which any regulatory or corrective action would be required.

Minimum Statutory Surplus and Capital

The 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(s) in which they are licensed and the types of business that they transact.

The U.S. Branch, as the branch of an alien insurer, is required to maintain a certain amount of assets in trust with a financial institution acceptable to the Commissioner of Michigan's Office of Financial and Insurance Regulation ("Michigan 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 Commissioner to cover the U.S. Branch's liabilities, plus a portion of its surplus in the United States. Generally, these assets are available only to meet 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 Commissioner. As at December 31, 2010, the U.S. Branch had assets in trust in excess of Michigan's requirements.

Regulation of Investments

The U.S. Branch and SLF Inc.'s U.S. life insurance subsidiaries are subject to state laws and regulations that require diversification of their investment portfolios and limit the amount of investments in certain investment categories such as below-investment-grade fixed income securities, equity real estate, foreign investments 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.

Insurance Guaranty Assessments

All states, the District of Columbia and Puerto Rico require insurers to participate in the local insurance guaranty association. The associations may levy assessments for policyholder losses incurred by impaired or insolvent insurers. 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 SLF Inc.'s U.S. insurance subsidiaries pursuant to these laws may be used as credits for a portion of its U.S. premium taxes.

NAIC Solvency Modernization Initiative

The NAIC has undertaken a "Solvency Modernization Initiative" ("SMI") to examine the U.S. insurance solvency regulation framework. The SMI is focused on five solvency areas: capital requirements, international accounting, insurance valuation, reinsurance and group regulatory issues. The SMI may result in the adoption of changes to the framework in those areas that could, if subsequently adopted by the states, have an adverse impact on the Company by, for example, mandating higher levels of required capital for SLF Inc.'s U.S. life insurance subsidiaries. The SMI is not expected to be completed for some time, however, and the outcome of the initiative is uncertain. Nevertheless, the SMI has the potential to significantly affect the regulatory regime applicable to SLF Inc.'s U.S. life insurers in the coming years.

General Regulation of Insurance at the 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.

Federal financial services reform legislation, The Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), was signed into law in July, 2010. Until further rulemaking and mandated studies occur as required by the legislation, its full impact on the life insurance industry cannot be determined. However, there are several aspects of the legislation that could adversely affect our operations.

The Dodd-Frank Act mandates the federal regulation of derivatives markets. It includes requirements for centralized clearing of certain derivatives and establishes new regulatory authority for the SEC and the U.S. Commodity Futures Trading Commission ("CFTC") over derivatives. It is unclear at this time the extent to which the Company will be subject to clearing and margin requirements. To the extent that the final regulations apply to the Company's activities, the cost of hedging and related activities undertaken by the Company may increase.

The Dodd-Frank Act establishes a new federal council of financial regulators, the Financial Stability Oversight Council ("Council"), which is charged with identifying risks to the financial stability of the U.S. financial markets, promoting market discipline, and responding to emerging threats to the stability of the U.S. financial markets. The Council is empowered to make recommendations to primary financial regulatory agencies regarding the application of new or heightened standards and safeguards for financial activities or practices, and certain participation in such activities, that threaten the stability of the U.S. financial markets. In addition, the Council is authorized to determine whether an insurance company is systematically significant and to recommend that it should be subject to prudential supervision by the Board of Governors of the Federal Reserve System.

The Dodd-Frank Act also establishes a Federal Insurance Office ("FIO") in the U.S. Department of Treasury. While the FIO was not granted general supervisory authority over the insurance industry, it is authorized, among other things, to monitor and collect data on the insurance industry, recommend changes to the state system of insurance regulation to the U.S. Congress, and pre-empt state insurance laws that conflict with certain international agreements relating to the business of insurance or reinsurance to which the U.S. government is a party.

Many of the requirements of the Dodd-Frank Act are subject to further study and most will be subject to implementing regulations over the course of several years. Accordingly, the outcome of these matters is uncertain and could result in more stringent capital, liquidity and leverage requirements, increased compliance costs, or otherwise adversely affect Sun Life Financial's business.

The Foreign Account Tax Compliance Act was enacted in the U.S. in 2010 and imposes new reporting and withholding requirements for deemed foreign financial institutions on foreign source income attributable to U.S. accounts. The legislation is generally effective on January 1, 2013, and while this will not impose any additional taxes on the Company, the reporting requirements will necessitate changes to our front-end product origination procedures as well as technology enhancements to capture the required data to be reported to the Internal Revenue Service.

Other federal legislation, the USA PATRIOT Act of 2001 ("PATRIOT Act"), applies to financial institutions. 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 applicable to the insurance industry. Regulations applicable to the insurance industry require 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 that issue covered products and broker-dealer subsidiaries have implemented anti-money laundering programs to comply with the PATRIOT Act regulations and with the Office of Foreign Assets Control requirements with respect to anti-terrorist financing.

The Internal Revenue Service ("IRS") has announced its intention to issue regulations with respect to the computation of the dividends-received deduction ("DRD") on separate account assets held in connection with variable annuity contracts. If enacted, these could result in the elimination of some or all of the separate account DRD tax benefit that the Company ultimately receives. Any regulations that the IRS proposes to issue on this matter will be subject to public comment before they are finalized. The timing, substance and effective date of the new regulations are unknown.

Privacy of Customer Information

U.S. federal and state laws require financial institutions, including insurers, to protect the security and confidentiality of customer information and to notify customers about the institution's policies and practices relating to its collection, use, and disclosure of customer information and its policies that protect 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 contracts, policies and funds offered or managed by these subsidiaries are subject to regulation under U.S. federal securities laws administered by the SEC and under certain state securities laws.

Several of SLF Inc.'s U.S. subsidiaries issue products, such as variable annuity contracts and variable life insurance policies, which are registered with the SEC as investment companies under the Investment Company Act of 1940, as amended ("1940 Act") and the Securities Act of 1933, as amended ("Securities Act"). Certain of SLF Inc.'s U.S. subsidiaries provide investment management services to other affiliates, such as the MFS funds, which similarly are registered as investment companies under the 1940 Act and the Securities Act. The 1940 Act and the Securities Act impose various obligations on registered investment companies, including disclosure, operational, recordkeeping and reporting requirements and, in the case of the 1940 Act, prohibitions on certain transactions with affiliates.

To the extent that variable annuities, variable life insurance or any other products are deemed to be securities under U.S. federal or state securities laws, they are qualified for sale as needed in certain states in the United States and the District of Columbia. Marketing and sales of securities products are subject to the Securities Exchange Act of 1934, as amended ("1934 Act"), and regulations promulgated by the Financial Industry Regulatory Authority.

The investment management activities of SLF Inc.'s U.S. subsidiaries are subject to federal and state laws and regulations in the jurisdictions where they conduct business. MFS and certain of SLF Inc.'s other U.S. subsidiaries are registered as investment advisers under the Investment Advisers Act of 1940, as amended, which imposes various obligations on registered investment advisers, including fiduciary duties, disclosure, operational, recordkeeping and reporting requirements.

Registered investment companies and investment advisers are regulated by and subject to examination by the SEC. The SEC is authorized to institute proceedings and impose sanctions for violations of the U.S. federal securities laws. Failure to comply with applicable securities laws could subject SLF Inc.'s investment advisory subsidiaries to a range of regulatory sanctions, including censure, limitations on the registrant's activities, and termination of registration, and could subject its registered investment companies to a cessation of sales or rescission of securities sold.

Sun Life (U.S.) files periodic reports with the SEC under the 1934 Act. Certain of SLF Inc.'s U.S. subsidiaries are registered as broker-dealers under the 1934 Act and are subject, for example, to the SEC's net capital rules, and are members of, and subject to regulation by, the Financial Industry Regulatory Authority. Certain other U.S. subsidiaries of SLF Inc. are registered as transfer agents under the Exchange Act.

United Kingdom

Insurance Regulation

SLF Inc. does not carry on business and is not regulated as an insurance company in the United Kingdom but is the indirect owner of the capital stock of several U.K. insurance subsidiaries that are regulated by the FSA. SLF Inc.'s U.K. life insurance subsidiaries, Sun Life Assurance Company of Canada (U.K.) Limited ("SLOC UK") and SLFC Assurance (UK) Limited ("SLFC UK"; formerly Lincoln Assurance Limited) carry on certain regulated activities in the United Kingdom in relation to long-term contracts of insurance and are authorized and regulated under the *Financial Services and Markets Act 2000* ("FSM Act") by the FSA. SLOC UK and SLFC UK 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"). Under these requirements, SLOC UK and SLFC UK must 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. They are also required to file financial statements and other information with the FSA on an annual or semi-annual basis. The regulatory requirements determined at the European Union level are also enacted 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. SLOC UK and SLFC UK are also required to comply with the conduct of business standards of the Irish Financial Services Regulatory Authority in respect of the Company's book of Irish policies.

Long-term Assets and Liabilities

In accordance with the rules set out in the FSA Handbook, each of SLOC UK and SLFC UK are 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 their non-life insurance business, if any, or to shareholders. Within their respective long-term insurance funds, each of SLOC UK and SLFC UK maintain separate sub-funds in respect of assets and liabilities attributable to its participating insurance business and to its non-participating insurance business. The FSA rules impose restrictions on SLOC UK and SLFC UK from applying assets attributable to their long-term insurance businesses for purposes other than their long-term businesses.

Capital Resources Requirements

SLOC UK and SLFC UK must satisfy the capital resource requirements under the FSA Handbook which require 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 its 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. On December 31, 2010, SLOC UK and SLFC UK exceeded their minimum capital requirements in the United Kingdom.

Restrictions on Dividends and Capital Transactions

SLOC UK and SLFC UK are subject to the provisions of the *Companies Act 2006* governing the payment of dividends, which prevent any distribution by a company except out of profits available for this purpose. In addition, they are prohibited from transferring any assets maintained in their accounts for participating policies to their shareholders and can only pay dividends out of non-participating surplus once this has been transferred from their long-term fund to their shareholders' fund after the annual valuation.

Financial Ombudsman Service

SLOC UK and SLFC UK are subject to the jurisdiction of The Financial Ombudsman Service which provides consumers with a free, independent service to enable disputes with financial firms to be resolved. The ombudsman is empowered to order firms to pay fair compensation for loss and damage and may order a firm to take such steps as the ombudsman determines to be just and appropriate in order to remedy a complaint. The Financial Ombudsman Service is funded by levies and case fees payable by businesses covered by the ombudsman.

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 request information or documents, to investigate the business of the insurance company and to require the company to take appropriate actions to satisfy required threshold conditions for authorization. In addition, the FSA operates its Approved Persons regime under which individuals must be approved by the FSA in order to perform certain defined functions for an insurance company. These approved persons are required to adhere to specific principles of behaviour and may be subject to a range of censures for breaches of these principles.

Regulatory Methodology

The FSA has adopted a risk and principles based regulatory methodology. Its focus is towards the outcomes achieved by firms and individuals, rather than primarily applying a prescriptive, rules-based regime to regulate processes. The FSA has highlighted that, as part of outcomes focussed regulation, the FSA wishes to work more closely with firms, particularly as strategic initiatives are announced, to fully work through the implications of any such changes and challenge management's thinking at an early stage to ensure the correct regulatory outcomes. Treating Customers Fairly continues to be a major focus of the FSA's regulatory reviews. There are three current major future reform proposals being considered. First, the European Union's Solvency II Directive will implement a far reaching change to insurance companies' regulatory framework. The intention is to replace the existing solvency regime and enable the adoption of firm-specific and risk-based solvency requirements to better reflect the risks that companies face. This implementation will also focus on the governance and control standards achieved by firms. The Solvency II focus on governance, often addressed through the establishment of Board risk committees and the appointment of Chief Risk Officers, is aligned to continuing FSA prioritisation of this subject. Solvency II will also amend the current supervisory system so that it is consistently implemented across all member states. The rules for Solvency II are being drafted and it is expected that formalised Solvency II reporting will take effect in 2013. Second, the FSA will implement the outcomes from its Retail Distribution Review by 2012. This review will implement measures that ensure that commission-based remuneration for advisors is replaced by remuneration for their services that is agreed with individual customers. This will impact the strategies of distributor and provider firms. Finally, the regulatory system in the UK will be substantially reformed to reallocate the FSA's powers and duties to new agencies. This process is expected to take effect in 2012

Group Supervision under Solvency II

Solvency II includes a group supervision and solvency regime that not only applies to groups wholly operating within the European Economic Area (the "EEA"), but will also apply to companies that carry on business in the EEA as part of "insurance groups", such as Sun Life Financial, that are located outside the EEA. The group supervisory and capital regime under Solvency II will extend to members of an insurance group whose ultimate insurance parent company is located outside the EEA, unless that parent company is located in a jurisdiction where the supervisor is determined to apply group supervision that is equivalent to the EEA Solvency II standards. Canada is not one of the three countries included within the first wave of equivalence assessments, and it is not clear what transitional arrangements might apply. The application of the Solvency II group regime to Sun Life Financial's European and world-wide operations has not been determined at this time.

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

This section provides a summary of some of the significant risks that could affect (and, in some cases, are affecting) our business, financial condition or results of operations. As a large company operating in a complex industry, Sun Life Financial encounters a variety of risks, including those described below and in the Risk Management section in our 2010 MD&A. Other risks deemed to be immaterial currently may also impact our business in future. This information should be considered carefully together with the other information in this AIF and in our 2010 MD&A, our 2010 Consolidated Financial Statements and the other reports and materials that we file with securities regulators.

These risks may occur independently or in combinations and may occur simultaneously or in rapid chained progression. For example, a major global pandemic would have a material adverse impact on mortality and claims experience. Such an event may also trigger adverse global capital markets developments, including a downturn in equity market levels and interest rates, increased volatility and credit deterioration. Operational risks could also arise due to rising employee absenteeism and potential disruptions in third party service arrangements.

While a number of risks that are described below refer to risk inter-dependencies and relationships between risks, these do not represent a complete inventory. It should be noted that these inter-relationships can continue to develop and change over time, and the combined adverse impact on our profitability and financial position could be significantly greater than the sum of the individual parts.

A description of our risk management approach can be found under Risk Management in our 2010 MD&A.

Changes in Legislation and Regulations

Most of our businesses are subject to extensive regulation and supervision. Changes in laws, regulations, or government policies, or in the manner in which they are interpreted or enforced, could have an adverse effect on our business and operations.

As a result of the global financial turmoil in recent years, regulators in many countries, including Canada, are considering changes to legislation and regulations designed to strengthen regulation of systemic risks to the global financial system for banks and other financial institutions like insurers. Future regulation could involve higher capital requirements, limits on executive compensation, especially for short-term performance, and other measures. Changes to regulatory requirements could adversely affect our businesses in certain countries. These changes, along with the changing role of governments that are participating more directly in the business sector (e.g. equity participation), could adversely impact our business.

For example, in Canada OSFI is considering new guidelines that would establish stand-alone capital adequacy requirements for operating life insurance companies, such as Sun Life Assurance, and that would update OSFI's regulatory guidance for non-operating insurance companies acting as holding companies, such as SLF Inc. OSFI is also reviewing the use of internally-modeled capital requirements for in-force segregated fund guarantee exposures. OSFI is considering a range of alternatives for in-force business, including a more market-consistent approach and potentially credit for hedging. Although it is difficult to predict how long the process for reviewing in-force segregated fund guarantee exposures will take, OSFI expects the review to continue for several years, likely into 2013. In addition, it is expected that OSFI may align some insurance regulations with those that emerge for banks under the new Basel Capital Accord.

The outcome of these initiatives is uncertain and may impact our position relative to that of other Canadian and international financial institutions with which we compete for business and capital. In particular, the final changes implemented as a result of OSFI's review of internal models for in-force segregated fund guarantee exposures may materially change the capital required to support our in-force variable annuity and segregated fund business in Canada and the United States. We compete with providers of variable annuity and segregated fund products that operate under different accounting and regulatory reporting bases in different countries, which may create differences in capital requirements, profitability and reported earnings on those products that may cause the Company to be at a disadvantage compared to some of our competitors in certain of its businesses.

The life insurance industry is closely regulated, and as new and more complex products are introduced, regulators refine capital requirements and introduce new reserving requirements for the industry. These regulations can potentially impact the reserve and capital requirements of Sun Life Financial and result in an adverse impact on our financial flexibility and capital position. Additional information can be found under the Capital Adequacy Risk section in this AIF.

In the United States, the valuation, capital and accounting rules are regulated by the states of domicile and the other jurisdictions in which Sun Life Financial does business. Model laws and regulations are promulgated by the NAIC, but individual jurisdictions can and do have differing rules. NAIC's standards, including those for reserves and capital, are continually evolving. All of these factors increase the difficulty of ensuring compliance. As an example of the complexity of NAIC rules, U.S. insurance companies are entitled to credit for statutory reserves for various policies that are reinsured by unaccredited reinsurers 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 the Company in the U.S. Changes in the NAIC rules or in our ability to purchase or renew letters of credit could require our U.S. operations to increase its NAIC statutory reserves, incur higher operating costs and/or reduce sales of affected products.

There is also a continued expectation that enhanced transparency and disclosure requirements will be established through international standards such as IFRS, the Basel Capital Accords, and Solvency II, Pillar 3, which could also impact our business, financial reporting, accounting processes, decision making and costs.

The European Union is in the process of implementing major regulatory changes as part of the Solvency II directive. This would implement a far reaching change to insurance companies' regulatory framework, designed to implement firm-specific and risk-based solvency requirements to reflect the risks that companies face. This would also amend the current supervisory system so that it is consistently implemented across all member states. The rules for Solvency II are in draft, although it is expected that Solvency II will be implemented in 2013.

Sun Life Financial currently has an effective income tax rate that is lower than the Canadian statutory income tax rate for corporations. The Company also reflects favourable tax impacts in the financial statements from certain tax benefits, including but not limited to tax-exempt investment income, dividends received deductions, tax credits (from certain investments or from taxes paid on foreign source income), and favourable tax rates in certain jurisdictions in which we operate. There is risk that tax legislation, administrative guidance or legislative developments could lessen or eliminate some of these benefits which currently inure to the benefit of the Company or its policyholders. This risk could result in lower product sales in the future or lapses of policies currently held, and could have a material adverse effect on our future results of operations and financial position.

In addition, discussion is underway regarding potential reform to Canada's retirement savings plan system. If implemented, the change may adversely impact our business by creating products and services that will compete directly with certain products and services offered by Sun Life Financial.

Equity Market Risk

Equity market price declines and volatility impacts both our assets and liabilities and could adversely affect our business, profitability and capital requirements in several ways.

Our primary exposure to equity risk arises in connection with the underwriting of benefit guarantees on variable annuity and segregated fund annuity contracts (i.e. segregated fund products in Canada, variable annuities in SLF U.S. and run-off reinsurance in our Corporate business segment). These benefit guarantees are linked to underlying fund performance and may be triggered upon death, maturity, withdrawal or annuitization.

The ultimate cost of providing for these guarantees with respect of our segregated fund and variable annuity products is uncertain, and will depend upon a number of factors including general capital market conditions, policyholder behaviour and mortality experience, which may result in negative impacts on net income and capital.

While a large percentage of contracts are included in our equity hedging program, not all of the equity exposure related to these contracts is hedged. For those variable annuity and segregated fund contracts included in the equity hedging program, we generally hedge the fair value of expected future net claims costs and a portion of the policy fees as we are primarily focused on hedging the expected economic costs associated with providing segregated fund and variable annuity guarantees. Since the fair value of benefits being hedged will generally differ from the financial statement value (due to different valuation methods and the inclusion of valuation margins in respect of financial statement values), this approach will result in residual volatility to equity market shocks in reported income and capital. The general availability and cost of these hedging instruments may be adversely impacted by a number of factors, including declining interest rates, increased volatility in capital markets and changes in the general market and regulatory environment within which these hedging programs operate. In particular, the new framework for regulation of over-the-counter derivatives under the Dodd-Frank Act could impose additional costs on our hedging program and could affect our hedging strategy. The impact of this legislation is not known at this time.

Our hedging programs may themselves expose us to other risks such as basis risk (the risk that hedges do not exactly replicate the underlying portfolio experience), derivative counterparty credit risk, and increased levels of liquidity risk, model risk and other operational risks. These factors may adversely impact the net effectiveness, costs and financial viability of maintaining these hedging programs and therefore adversely impact our profitability and financial position. While our hedging programs include various elements aimed at mitigating these effects (for example, hedge counterparty credit risk is managed by maintaining broad diversification, dealing primarily with highly rated counterparties and transacting through ISDA agreements that generally include applicable credit support annexes), residual risk and potential reported earnings and capital volatility remain.

We derive a portion of our revenue from fee income generated by our asset management businesses and from certain insurance and annuity contracts where fee income is levied on account balances that directionally move in line with general equity market levels. Accordingly, adverse fluctuations in the market value of such assets would result in corresponding adverse impacts on our revenue and net income. In addition, declining and volatile equity markets may have a negative impact on sales and redemptions (surrenders) for this business, resulting in further adverse impacts on our net income and financial position. We also have direct exposure to equity markets as a result of the investments supporting other general account liabilities, surplus and employee benefit plans. These exposures generally fall within our risk taking philosophy and appetite and, hence, are generally not hedged.

Real Estate Risk

We have substantial investments in real estate and are exposed to potential for financial loss arising from fluctuations in the fair value or future cash flows of these asset types, and results from the ownership of, or fixed income investments secured by real estate property, leasehold interests, ground rents and purchase and leaseback transactions. Losses relating to real estate risk may arise from external market conditions, inadequate property analysis, inadequate insurance coverage, inappropriate real estate appraisals or from environmental risk exposures. We hold direct equity real estate investments supporting general account liabilities and surplus, and fluctuations in the value of these asset types will impact our profitability and financial position.

Credit Risk

Credit risk is the risk of loss due to the Company not receiving amounts owed by our financial counterparties. We are subject to credit risk in connection with issuers of securities held in our investment portfolio, debtors (for example, mortgagors), structured securities, reinsurers, derivative counterparties, other financial institutions (for example, amounts held on deposit) and other entities. Losses may occur when a counterparty fails to make timely payments pursuant to the terms of the underlying contractual arrangement or when the counterparty's credit rating or risk profile otherwise deteriorates. Credit risk can also arise in connection with deterioration in the value of or ability to realize on any underlying security that may be used to collateralize the debt obligation (for example, real estate property values in the case of mortgage obligations). Credit risk can occur at multiple levels; as a result of broad economic conditions, challenges within specific sectors of the economy, or from issues affecting individual companies. Events that result in defaults, impairments or downgrades of the securities in its investment portfolio would cause us to record realized or unrealized losses and increase our provisions for asset default, adversely impacting earnings.

Continued volatility in the capital markets, including deteriorating credit and negative real estate risk indicators, fluctuations in macro economic factors, and assumed loss given default expectations, may have a significant impact on the value of the fixed income assets in our investment portfolio. Events that result in defaults, impairments or downgrades of the securities within our investment portfolio would cause the Company to record realized or unrealized losses and increase our provisions for asset default, adversely impacting earnings. For example, our asset-backed portfolio is highly sensitive to fluctuations in macro economic factors, assumed default rates for the underlying collateral pool and loss given default expectations. In addition, our asset-backed portfolio has exposure to lower rated securities that are highly leveraged, with relatively small amounts of subordination available below the Company's securities to absorb losses in the underlying collateral pool. For these securities, if a relatively small percentage of the underlying collateral pool defaults, we may lose all of our principal investment in the security.

As part of our overall risk management strategy, we maintain various hedging programs that employ the use of derivatives. Market conditions determine the availability and cost of the derivative protection. Although we deal primarily with highly rated counterparties, a counterparty's insolvency or its inability or unwillingness to make payments under the terms of the derivative agreement could have an adverse effect on our business.

We purchase reinsurance for certain risks underwritten by our various insurance businesses. Reinsurance does not relieve Sun Life Financial's insurance businesses of their direct liability to policyholders and accordingly, we bear credit risk with respect to our reinsurers. Although we deal primarily with highly rated reinsurers, a deterioration in their credit ratings, or reinsurer insolvency, inability or unwillingness to make payments under the terms of our reinsurance agreement could have an adverse effect on our profitability and financial position.

Interest Rate Risk

Our business and profitability could be adversely affected by changes or volatility in interest rates or credit/swap spreads, when assets and liability cash flows do not coincide. We are exposed to interest rate 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 in unfavourable interest rate environments. The impact of changes or volatility in interest rates or credit/swap spreads are reflected in the valuation of our financial assets and liabilities for insurance contracts in respect of insurance and annuity products.

Certain products have explicit or implicit interest rate guarantees in the form of settlement options, minimum guaranteed crediting rates and guaranteed premium rates. If investment returns fall below those guaranteed levels, we may be required to increase liabilities or capital in respect of these insurance contracts, negatively affecting net income or capital. The guarantees attached to these products may apply to both past premiums collected and future premiums not yet

received. Our primary residual exposure to interest rate risk arises from certain insurance products with guaranteed premium rates or minimum interest guarantees.

Declines in interest rates or narrowing credit spreads can result in compression of the net spread between interest earned on investments and interest credited to policyholders. Declines in interest rates or narrowing credit spreads may also result in increased asset calls, mortgage prepayments and net reinvestment of positive cash flows at lower yields, and therefore adversely impacting our profitability and financial position. In contrast, increases in interest rates or a widening of credit spreads may have a material impact on the value of fixed income assets, resulting in depressed market values, and may lead to losses in the event of the liquidation of assets prior to maturity.

Significant changes or volatility in interest rates or credit/swap spreads could have a negative impact on sales of certain insurance and annuity products, and adversely impact the expected pattern of redemptions (surrenders) on existing policies. Increases in interest rates or widening credit spreads may increase the risk that policyholders will surrender their contracts, forcing us to liquidate investment assets at a loss and accelerate recognition of certain acquisition expenses. While we have established hedging programs in place and our insurance and annuity products often contain surrender mitigation features, these may not be sufficient to fully offset the adverse impact of the underlying losses on asset sales.

We also have direct exposure to interest rates and credit spreads from investments supporting other general account liabilities, surplus and employee benefit plans. Lower interest rates or a narrowing of credit spreads will result in reduced investment income on new fixed income asset purchases. Conversely, higher interest rates or wider credit spreads will reduce the value of our existing assets. These exposures generally fall within our risk taking philosophy and appetite and, hence, are generally not hedged.

We have implemented ongoing asset-liability management and hedging programs involving regular monitoring and adjustment of risk exposures using financial assets, derivative instruments and repurchase agreements to maintain interest rate exposures within our risk tolerances. The general availability and cost of these hedging instruments may be adversely impacted by changes in interest rate levels and volatility, and in addition, these programs may themselves expose us to other risks such as those described under the Equity Market Risk heading in this section.

Product Design and Pricing

Product design and pricing risk arises from deviations in assumptions used in the pricing of products as a result of uncertainty concerning future investment yields, policyholder behaviour, mortality and morbidity experience, sales levels, mix of business, expenses and taxes. Although some of our products permit us to increase premiums or adjust other charges and credits during the life of the policy or contract, the terms of these policies or contracts may not allow for sufficient adjustments to maintain expected profitability. This could have an adverse effect on our results of operations. In addition, some of our products are designed to utilize external funding structures to partially support local statutory reserve requirements. A loss or reduction in external funding capacity could adversely affect the profitability of these products.

Products that offer complex features, options or guarantees require increasingly complex pricing models, methods or assumptions, leading to additional levels of uncertainty. The risk of mis-pricing increases with the number and inherent uncertainty of assumptions needed to model a product. Past experience data supplemented with future trend assumptions may be poor predictors of future experience. Lack of experience data on new products or new customer segments increases the risk that future actual experience unfolds differently from expected assumptions. External environmental factors may introduce new risk drivers, which were unanticipated during product design, and have an adverse result on the financial performance of the product. Policyholder sophistication and behaviour in the future may vary from that assumed at the time the product is designed, adversely affecting the product’s financial performance.

Capital Adequacy

Capital adequacy risk is the risk that capital is not or will not be sufficient to withstand adverse economic conditions, to maintain financial strength or to allow us and our subsidiaries to support ongoing operations and to take advantage of opportunities for expansion.

The strength of our capital position depends in part upon the level of and changes in interest rates, credit spreads, equity prices, mortality and morbidity experience, currency rate fluctuations and the overall profitability of the Company.

Declining equity markets, downgrades, lower interest rates coupled with widening credit spreads on corporate bonds and asset backed securities, lower earnings, and inability to access the capital markets on a timely basis will result in an increase in required capital or reductions in available capital, thereby impairing our financial position. In addition, regulatory changes being considered by the OSFI or other regulators world-wide may increase the amount of capital required to be held by us and our insurance subsidiaries.

Risk of a Sustained Period of Low Economic Growth

A sustained low interest rate environment may adversely impact the primary demand for a number of our core insurance offerings requiring a significant repositioning of the product portfolio, and also increase the likelihood of higher surrenders (redemptions) and insurance claims (for example, increased incidence and reduced termination rates in respect of disability related claims). This may contribute to adverse developments in revenues and cost trends and, hence, overall profitability.

Furthermore, a prolonged period of economic uncertainty may give rise to a higher level of strategic risks including those associated with industry restructuring and the changing mergers and acquisitions profile, new competitive dynamics and significant changes in the legal, regulatory and tax regimes in which our businesses operate.

Moreover, the capital market conditions generally associated with ongoing economic uncertainty increase the risk profile of many of the financial and market risks outlined in other sections of this disclosure. As a result, this risk should be considered in conjunction with other specific risk factors described in this section of the AIF including, in particular, credit risk, equity market risk, interest rate risk, liquidity risk as well as the interaction of risks.

Legal, Regulatory and Market Conduct Matters

Failure to comply with laws or to conduct our business consistent with changing regulatory or public expectations could adversely impact our reputation and may lead to regulatory proceedings, penalties and litigation. Our 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, our products. We also face a significant risk of litigation in the ordinary course of operating its business including the risk of class action lawsuits.

Insurance and securities regulatory authorities in certain jurisdictions regularly make inquiries, conduct investigations and administer market conduct examinations with respect to insurers' compliance with applicable insurance and securities laws and regulations. As well, 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 we operate 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. Investigations have been made 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 and allegations of improper life insurance pricing and sales practices by life and annuity insurers. Current and future investigations, examinations and regulatory settlements and civil actions arising out of such matters could adversely affect our reputation, our profitability and future financial results. In addition, there is heightened litigation risk generally arising from this conduct.

Liquidity Risk

Liquidity risk is the risk that we will not have the cash required to fund all cash outflow commitments as they fall due. This includes the risk of being forced to sell assets at depressed prices resulting in realized losses on sale. For SLF Inc. this risk also includes restrictions on the ability to efficiently allocate required capital among its subsidiaries due to various market and regulatory constraints on the movement of funds. Sun Life Financial's funding obligations arise in connection with the payment of policyholder benefits, expenses, asset purchases, investment commitments, interest on debt and dividends on capital stock. Sources of available cash flow include general fund premiums and deposits, investment related inflows (such as maturities, principal repayments, investment income and proceeds of asset sales), proceeds generated from financing activities in normal markets and dividends and interest payments from its subsidiaries.

Under stress conditions, significant increases in funding obligations can occur in conjunction with material reductions in cost effective sources of available cash inflow. In particular, adverse stress scenarios could involve significant increases in policyholder cash surrenders and terminations and decreases in the amounts of premiums and deposits being generated by existing and new customers. Adverse capital market conditions may also be associated with a material reduction in available market liquidity and clearing prices for expected asset sales, and reductions in the level of cash inflows

(dividends, interest payments and expected maturities) on continuing portfolio investments. These developments could have an adverse effect on our financial position and results of operations.

We engage in various transactions including repurchase agreements and other capital markets transactions to meet short-term cash requirements. The cost and our ability to execute these transactions may be negatively impacted by illiquid or volatile markets. Continued disruption in the financial markets may limit our access to capital in the event we are required to seek additional liquidity to operate our businesses. This will result in increased costs to raise capital coupled with less desirable terms or maturities which would decrease future profitability and financial flexibility.

We have various reserve financing transactions and derivative contracts under which we may be required to pledge collateral or to make payments to our counterparties for the decline in the market value of specified assets. The amount of collateral or payments may increase under certain circumstances, which could adversely affect our liquidity.

We currently utilize capital markets solutions to fund a portion of our statutory reserve requirements. The availability of these reserve funding structures in the current marketplace is limited relative to that available before the recent financial market crisis. If capacity remains limited for an extended period of time, our ability to generate additional business in a cost effective manner may be impacted.

SLF Inc. is a holding company for our insurance and wealth management subsidiaries and does not have significant operations of its own. Dividends and interest payments from its subsidiaries are its principal sources of cash. If the cash received from its subsidiaries is insufficient, then the Company will be required to raise debt or equity externally or sell some of its assets. The Company is subject to various regulations in the jurisdictions in which it operates. The ability of SLF Inc. and its 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.

Financial Strength and Credit Ratings

A downgrade by a rating agency in the financial strength or credit ratings of Sun Life Financial or our insurance subsidiaries could adversely affect our financial condition and results of operations.

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 materially, our competitive position and results of operations could be negatively impacted through loss of sales, higher level of surrenders and withdrawals, and higher reinsurance, and may potentially require the Company to reduce prices for products and services to remain competitive.

Two credit rating agencies have negative outlooks in place on certain ratings of the Company or its subsidiaries. Moody's maintains a negative outlook on Sun Life (U.S.) insurer financial strength rating and S&P maintains a negative outlook on Sun Life Financial's issuer credit rating. We expect the agencies to undertake a review of these outlooks, and there can be no assurance, nor can we predict, that there will not be further downgrades.

The ratings of various subsidiaries are based on the implicit support from the Sun Life Financial group of companies. For example, Moody's has a published financial strength rating of Aa3 (stable outlook) on Sun Life Assurance and Aa3 (negative outlook) for Sun Life (U.S.). On a stand-alone basis, without financial and capital support from the Sun Life Financial Group of companies, Sun Life (U.S.)'s rating is A3 however by recognizing the support provided, Moody's rates Sun Life (U.S.) in line with Sun Life Assurance at Aa3. Should the stand-alone rating of Sun Life (U.S.) be independently downgraded from its negative outlook status, it will result in the published rating of Sun Life (U.S.) being lower by a commensurate amount.

In addition, rating agencies publish issuer credit ratings for certain Sun Life Financial companies, which have an impact on the interest rates paid by those companies on borrowed funds. A material downgrade in the issuer credit ratings could limit the Company's access to capital or increase the cost of borrowing and may have an adverse effect on its financial condition.

Sun Life Financial has established financing arrangements that support medium term note programs and the excess NAIC statutory reserves required for universal life policies with no lapse guarantees issued by Sun Life Assurance in the United States. These financings, in addition to others, are treated as operating leverage by the rating agencies. If, due to a

change in rating agency methodology or position, the rating agencies immediately cease to treat these financings as operating leverage, without providing any grandfathering provisions, there may be an adverse impact on the Company and its subsidiaries' ratings.

Attracting and Retaining Talent

Attracting, retaining and maintaining the engagement of qualified employees, including executives, sales representatives and employees with business critical skills continues to be a priority and strong area of focus. If we are unable to attract, retain and engage qualified employees, sales representatives and executives, our ability to achieve business objectives, including operational, financial and growth goals, could be adversely affected.

Model Risk

Model risk refers to unexpected financial or non-financial losses resulting from the use of financial models. All models are subject to model risk.

We make extensive use of financial models in a wide range of business applications including product development and pricing, capital management, valuation, financial reporting, planning, hedging and risk management.

Model risk can arise from many sources including inappropriate methodologies, inappropriate assumptions or parameters, incorrect use of source data, inaccurate or untimely source data, incorrect application or operator errors. Increasing product complexity due to new features and regulatory expectations is driving more complex models, which may increase the risk of error. If the models' assumptions are erroneous, or data or calculation errors occur in the models, this could result in a negative impact on our results of profitability and financial position.

Our run-off reinsurance operations rely on our clients to provide timely and accurate data. The nature of the industry is such that there is reliance on the original underwriting decisions made by our clients. Erroneous or untimely reporting of data from these clients may result in inaccurate model calculations and valuations and create volatility in our earnings.

Many of our methods and models for managing risk and exposures are based upon the use of observed historical precedent for financial market behaviour, credit experience and insurance risks. As a result, these methods may not fully predict future risk exposures, which can be significantly greater than our historical measures indicate. Other risk management methods depend upon the evaluation of information regarding markets, clients, catastrophic occurrence or other matters that is publicly available or otherwise accessible to us. However, this information may not always be accurate, complete, up-to-date, properly evaluated or necessarily indicative of ultimate realized experience.

Investment Performance

Investment performance risk is the risk that we fail to achieve the desired return objectives on our investment portfolio, or that our asset management businesses fail to achieve competitive returns on products such as mutual funds. Failure to achieve investment objectives may adversely affect our revenue and growth prospects for our asset management businesses, investment income on general account investments and overall profitability.

In our insurance based business, the performance of our investment portfolio depends in part upon the level of and changes in interest rates, credit spreads, equity prices, real estate values, and the performance of the economy in general, the performance of the specific obligors included in these portfolios and other factors that are beyond our control. Changes in these factors can affect our net investment income in any period and such changes could be substantial.

In our wealth management business, investment performance, along with achieving and maintaining superior distribution and client services, is critical. Accordingly, poor investment performance by our wealth management operations could adversely affect sales, and reduce the level of assets under management, which could adversely impact our revenues, income and capital position.

Mergers, Acquisitions and Divestitures

We regularly explore opportunities to selectively acquire other financial services businesses or to divest ourselves of all or part of certain businesses, in support of our growth and strategy goals. These transactions introduce the risk of financial loss due to a potential failure to achieve the expected financial or other strategic objectives.

There is risk that we may be unable to make an appropriate acquisition in a desired market or business. This risk could adversely impact our ability to compete effectively in certain markets due to a lack of scale.

The success of these acquisitions depends on a number of factors. In particular, we could experience client losses, surrenders or withdrawals that prove to be materially different from those anticipated in pricing the transaction. Anticipated cost synergies or other expected benefits may not materialize due to a failure to successfully integrate the acquired business with our existing operations. There could also be unforeseen liabilities or asset impairments, including goodwill impairments that arise in connection with the past or future acquisitions or divestitures of businesses. Losses could arise from a failure in the due diligence process, failed integration and execution of the transaction, the inappropriate choice of acquisition target or mis-estimation or deterioration in any key experience factors or assumption upon which the transaction was based. There is no assurance that we will achieve our financial or strategic objectives or anticipated cost savings following an acquisition.

The purchase and sale agreements that support acquisition transactions typically include various indemnifications provided from the seller to the acquiring entity. We would therefore be exposed to the credit risk of the selling party with respect to its ability to perform if an indemnification trigger were to occur.

We may also periodically choose to divest ourselves of all or part of certain businesses. There is a risk of issues or errors occurring during the process of transitioning the business from us to a new provider. A failed or ineffectively executed divestiture could impair our financial position as well as expose us to potential future obligations if an indemnification trigger were to occur.

Mortality and Morbidity

Mortality rates or morbidity rates that differ from our expectations could negatively affect our profitability. Mortality and morbidity risk can arise in the normal course of business through random fluctuation in realized experience, through catastrophes, or in association with other risk factors such as product development and pricing or model risk. Adverse mortality and morbidity experience could also occur through systemic anti-selection, which could arise due to poor plan design, or underwriting process failure or the development of investor owned and secondary markets for life insurance policies. We are exposed to the catastrophic risk of natural environmental disasters (for example, earthquakes), man-made events (for example, acts of terrorism, military actions, and inadvertent introduction of toxic elements into the environment) as well as pandemics such as the H1N1 virus and the avian flu.

These factors could result in a significant increase in mortality or morbidity experience above the assumptions used in the pricing and valuation of products, leading to a material adverse effect on our profitability and financial position.

During economic slowdowns, the risk of adverse morbidity experience increases from the impact of the shifting nature of disabilities and cyclical economic outcomes. This introduces the potential for adverse financial volatility in disability results.

Longevity

Longevity risk is the potential for economic loss, accounting loss or volatility in earnings arising from uncertain ongoing changes in rates of mortality improvement, or a major medical breakthrough extending human life to extremes. Longevity risk affects contracts where benefits are based upon the likelihood of survival (for example, annuities, pensions, pure endowments, and specific types of health contracts).

Many of our 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, thereby requiring a strengthening in policyholder liabilities, resulting in reductions in net income and capital.

For mortality, morbidity and longevity risks, medical advances could adversely affect our life insurance, health insurance, critical illness, disability, long-term care insurance and annuity businesses.

Policyholder Behaviour

We can incur losses due to the mis-estimation or deterioration in the behaviour of policyholders with regard to lapse of policies or exercise of other embedded policy options.

Uncertainty in policyholder behaviour can arise from several sources including unexpected events in the policyholder's life, the general level of economic activity (whether higher or lower than expected), changes in pricing and availability of current products, the introduction of new products, changes in underwriting technology and standards as well as changes in our financial strength or reputation. Uncertainty in future cash flows affected by policyholder behaviour is further exacerbated by irrational behaviour during times of economic turbulence or at key option exercise points in the life of the insurance contract.

Many of our products include some form of embedded policyholder option. These could range from simple options relating to surrender/termination to more complex options relating to payment of premiums, or embedded options relating to various benefit and coverage provisions. Changes in the relatively frequency or pattern with which these options are elected (relative to those assumed in the pricing and valuation of these benefits) could have an adverse impact on our profitability and financial position.

Systemic forms of policyholder behaviour risk could also arise with the development of investor owned and secondary markets for life insurance policies.

Distribution Channels

The inability to attract and retain intermediaries and agents to distribute our products, or to develop online sales and customer support capabilities and technologies, could materially impact sales and results of operations.

We distribute our 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. We compete with other financial institutions to attract and retain these intermediaries and agents on the basis of products, compensation, support services and financial position. Our sales and results of operations could be materially adversely affected if we are unsuccessful in attracting and retaining these intermediaries and agents. The capability to reach certain customers through online sales and services is becoming increasingly important in the insurance industry. We compete with other financial institutions to attract and retain these customers.

Distribution channels are growing rapidly in some businesses in certain countries, which may heighten the risks of market conduct and channel conflicts or overlaps.

Operations in Asia

The future success of our businesses in Asia depends in large part on our ability to grow and compete in disparate markets. Challenges in these markets include our ability to attract and retain qualified employees and executives with local experience and critical skills, political, legal or other risks, risks associated with joint venture operations, asset/liability management risk, and our ability to expand and diversify distribution channels.

If we are unable to attract, retain and engage qualified employees and executives with relevant experience and critical business skills, our ability to grow our business in Asia as quickly as planned may be limited. Competition for qualified employees in Asian markets continues to be strong and could adversely impact our ability to attract and retain talent.

Our international operations may face political, legal, operational or other risks that are not faced in our domestic operations. Examples of this type of risk are the risk of discriminatory regulation, nationalization or expropriation of assets, price controls and exchange controls or other restrictions that could prevent us from transferring funds from these operations out of the countries in which they operate or converting local currencies we hold into Canadian dollars or other currencies.

Capital markets in certain Asian markets do not have the same depth, liquidity or range of investments options generally available in other markets in which we operate. In particular, the more limited availability of long-duration assets exposes our Asian operations to higher asset-liability management costs and potential risk.

Our joint venture operations in India, China, and Indonesia have risks generally associated with joint venture relationships. For example, 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 our strategy and results of operations.

Competition

Competition from financial services companies, including banks, mutual fund companies, financial planners, insurance companies and other providers is intense, and could adversely affect our business in certain countries.

The businesses in which we engage are highly competitive, with several factors affecting our ability to sell our products, including price and yields offered, e-business capabilities, financial strength ratings, range of product lines and product quality, claims-paying ratings, brand strength and name recognition, investment management performance, historical dividend levels and the ability to provide value added services to distributors and customers. In certain markets, some of our competitors may be superior to us on one or more of these factors, for example, the strength of distribution arrangements or the ability to offer a broader product array.

Product development and product life cycles have shortened in many product segments, leading to more intense competition with respect to product features. This increases product development and administrative costs and reduces the time frame over which capital expenditures can be recovered. Regulatory and compliance costs also generally rise with increases in the range and complexity of our product portfolio.

We have 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, we will increasingly face more competition from large, well-capitalized financial services companies in each jurisdiction in which we operate. These larger companies have the ability to heavily invest in fundamental activities for sustained profitable growth and superior customer service in the life insurance industry such as brand equity, product development, technology, risk management, and distribution capability. There can be no assurance that this increasing level of competition will not adversely affect our businesses in certain countries.

Many of our insurance products, particularly those offered by the group segment, are underwritten annually. Given this relatively high frequency of renewal activity, this business may be particularly exposed to adverse persistency through market competitive pressures.

Different accounting bases of reporting in different countries (e.g. Canadian GAAP, U.S. GAAP, IFRS, etc.) may create differences in reported earnings, potentially causing us to be at a disadvantage compared to some of our competitors in certain of our businesses.

Currency Risk

Changes or volatility in foreign currency exchange rates and mismatches in the currency of our assets and liabilities (inclusive of capital) and cash flows could adversely affect our financial condition and results of operations. This risk may arise from a variety of sources such as foreign currency transactions and services, foreign exchange hedging, investments denominated in foreign currencies, investments in foreign subsidiaries and net income from foreign operations.

As an international provider of financial services, we operate in a number of countries, with revenues and expenses denominated in several local currencies. In each country in which we operate, we generally maintain the currency profile of our assets so as to match the currency of aggregate liabilities and required capital. This approach provides an operational hedge against disruptions in local operations caused by currency fluctuations. Foreign exchange derivative contracts such as currency swaps and forwards are used as a risk management tool to manage the currency exposure in accordance with our asset-liability risk management policy.

Changes in exchange rates can however affect our net income and surplus when results in functional currencies are translated into Canadian dollars. Those currencies are not hedged and, in general, a weakening in the local currency of our foreign operations relative to the Canadian dollar will have a negative impact on our net income reported in Canadian currency.

Business Continuity

Our businesses are dependent on the availability of trained employees, physical locations to conduct operations and computer and Internet-enabled technology. A significant business disruption to our operations can result if one or more of these key elements are negatively impacted.

Although we have implemented and periodically test our business continuity, crisis management and disaster recovery plans, a sustained failure of one or more of our key business processes or systems could materially and adversely impact our business, operations, and our employees. These failures can result from disruption of our systems from utility outages, fires, floods, severe storms, terrorism and other man-made attacks, natural disasters and other events. In addition to these key business processes and system disruptions, these unanticipated events, including disease pandemics such as the H1N1 virus, can also negatively affect staff, preventing them from getting to work or from operating business processes. Also, because some of our business processes are performed by third parties and some of our systems interface with or are dependent on third-party systems, we could experience service interruptions if these third party operations or systems fail.

Information System Security and Privacy/ System & Control Failure

A serious security breach of our systems or the information stored, processed or transmitted on these systems could damage our reputation or result in liability. We may be vulnerable to physical break-ins, computer viruses, system break-ins by “hackers”, programming or human errors, fraud or similar disruptive problems or events. There is also a risk that certain internal controls could fail due to human or system error, which could create or exacerbate the consequences from such events. These events could have an adverse effect on our results of operations and reputation.

We retain data for business transactions and financial reporting, personal information about our customers and employees in our computer and other record retention systems, and also enable customers’ on-line access to certain products and services. Although we have implemented extensive security measures to safeguard the confidentiality, integrity and availability of information, it is not possible to fully eliminate security and privacy risk.

We periodically need to update or change our systems to meet business needs. Although every reasonable precaution is taken to ensure these changes succeed, it is not possible to fully eliminate the risk of business disruption. Some of these changes and upgrades are extremely complex and there is a chance that an undetected technical flaw may be present that, when implemented, stops or disrupts critical information technology systems or business applications.

Dependence on Third Party Relationships

We obtain services from a wide range of third party service providers and have outsourced certain business and information technology functions to third parties in various jurisdictions, including Canada and the United Kingdom. An interruption in our continuing relationship with certain third parties, the impairment of their reputation or creditworthiness, or their failure to provide contracted services in the manner agreed to could materially and adversely affect our ability to market or service our products and customers. Even if contingency plans are developed for significant outsourcing arrangements there can be no assurance that we would be able to find alternate sources for these arrangements in a timely manner.

Closed Block

Upon demutualization, Sun Life Assurance established “closed blocks” of assets and liabilities to protect the reasonable expectations of participating policyholders. Our results of operations and financial position may be adversely affected if returns on assets along with other experience, such as mortality, morbidity and lapse on our closed blocks are sufficiently adverse so that the allocated assets can no longer meet the reasonable expectations of policyholders in these blocks.

Environmental Risk

As an investor in real estate, mortgage, and real-estate secured private fixed income assets, we are subject to federal, provincial or state, and local environmental laws and regulations in all jurisdictions. Consequently, under applicable law we may experience liabilities that could adversely affect the value of those investments and costs related to required remediation of mortgaged or owned properties.

In addition, through other invested assets, such as loans, bonds or stocks, we could be subject to negative consequences from environmental violations. However, in an effort to reduce the potential for such adverse affects, we consider environmental risk in underwriting such investments.

Our reputation and ability to build our business and brand may be adversely affected if we or our tenants, mortgagors, or other related parties create risk by violating environmental regulations or best practices. Similarly, if major multinational clients, shareholder groups, or other key stakeholders deem that our environmental risk mitigation practices are inadequate, our operations could be negatively affected. Carbon disclosure, response to regulatory and public policy

developments, contribution to climate change through inefficient operating footprints, investment assets, and lending practices all carry a measure of risk. Similarly, we may be disqualified from bidding on business opportunities as a result of failure to comply with a potential client's supply chain environmental practice policies. We may also experience possible reduced access to capital markets should various sustainability indices find that our practices fall short of their criteria and de-list us as an index constituent.

As regulations and societal norms change, our financial performance may be adversely affected if we do not adequately prepare for direct or indirect negative economic impacts of climate change. Potential economic impacts of climate change include:

- Business losses and disruptions caused by extreme weather, rising sea levels, heat waves, severe storms, wildfires, floods, and droughts. These may result in disruption to water, air, and food supplies;
- Compliance with a legal and regulatory framework developed to address climate change. Consequences could include disruption or increased cost of oil-dependent transportation, increased fuel and electricity costs, more expensive building requirements; and
- Health risks and increased mortality resulting from effects of pollution and climate change on water and food supplies, changes in distribution, and consequences of organism-borne, food-borne, and waterborne infectious diseases.

Reinsurance Markets

As part of our overall risk management strategy, we purchase reinsurance for certain risks underwritten by our various insurance businesses. Reinsurance markets risk is the risk of financial loss due to adverse developments in reinsurance markets (for example discontinuance or diminution of reinsurance capacity).

Changes in reinsurance market conditions may adversely impact the availability or cost of maintaining existing or securing new requisite reinsurance capacity, with adverse impacts on profitability. This could also adversely affect our willingness or ability to underwrite certain lines of future business.

Reinsurance does not relieve Sun Life Financial's insurance businesses of their direct liability to policyholders and accordingly, we bear credit risk with respect to our reinsurers. Although we deal primarily with highly rated reinsurers, deterioration in their credit ratings, or reinsurer insolvency, inability or unwillingness to make payments under the terms of our reinsurance agreement, could have an adverse effect on our profitability and financial position.

Expense Risks

Expense risk is the risk that future expense cash flows could be higher than assumed. This risk can arise from general economic conditions, unexpected increases in inflation, or increases in the unit expenses of various blocks of business. The risk will occur in products where we cannot or will not pass the increased costs onto the customer. Expense risk can manifest itself in the form of a reserve increase or a reduction in expected future profits.

Tax Matters

The calculation of income taxes requires significant judgment. The validity and measurement of tax benefits associated with various tax positions taken or expected to be taken in our tax filings are a matter of tax law and are subject to interpretation. The impact of the final determination of tax audits, appeals of decisions of a taxing authority, or tax litigation may be materially different from that reflected in our financial statements. The assessment of additional taxes, interest and penalties could be materially adverse to our future results of operations and financial position.

Under the liability method of accounting for income taxes, we recognize future income tax assets in relation to carry forward of unused tax losses as well as for amounts that have already been recorded in the financial statements but will not result in deductible amounts in determining taxable income until future periods. Future income tax assets are recognized only to the extent that the benefits of tax losses and tax deductions are more likely than not to be realized. If it is apparent that it is more likely than not that the benefit of tax losses and tax deductions will not be realized, future income tax asset is not recognized. At each reporting period, we assess all available evidence, both positive and negative, to determine the amount of future tax assets to be recorded. The assessment requires significant estimates and judgment about future events based on the information available at the reporting date. Any changes in our judgment

resulting in establishing a valuation allowance could have a material impact on our future results of operations and financial position.

From time to time, local governments in countries in which we operate enact changes to statutory corporate income tax rates. These changes require us to review and re-measure our future tax assets and liabilities as of the date of enactment. Any future tax rate reductions in jurisdictions where we carry a net future tax asset, for example the United States, could have a material adverse impact on our future results of operations and financial position.

Legal and Regulatory Proceedings

SLF Inc. and its subsidiaries are regularly involved in legal actions, both as a defendant and as a plaintiff. In addition, government and regulatory bodies in Canada, the United States, the United Kingdom and Asia, including federal, provincial and state securities and insurance regulators in Canada, the United States and other jurisdictions, the SEC, Financial Industry Regulatory Authority and state attorneys general in the United States, from time to time, make inquiries and require the production of information or conduct examinations or investigations concerning compliance by SLF Inc. and its subsidiaries with insurance, securities and other laws. Management does not believe that the conclusion of any current legal or regulatory matters, either individually or in the aggregate, will have a material adverse effect on the Company's financial condition or results of operations.

Since January 1, 2010, (a) no penalties or sanctions have been imposed against Sun Life Financial (i) by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or (ii) by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision and (b) Sun Life Financial has not entered into any settlement agreements with a court relating to Canadian securities legislation or with a Canadian securities regulatory authority.

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.

Requests for copies of these documents may be sent to the Corporate Secretary of SLF Inc. at 150 King Street West, 6th Floor, Toronto, Ontario, Canada M5H 1J9. Copies of these documents and other additional information related to SLF Inc. are available at www.sunlife.com.

APPENDIX A – Charter of the Audit Committee

Sun Life Financial Inc. and Sun Life Assurance Company of Canada ("the Corporation")

Purpose

The Audit 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 Committee, the Board of Directors and the shareholders.

Membership

The Audit 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 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.

Committee membership is reviewed annually by the Governance and Conduct Review Committee to ensure the Committee as a whole includes members with the experience and expertise required to fulfill the Committee's mandate and that the financial literacy requirement is met.

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. The External Auditor receives notice of, and may attend all Committee meetings. The Committee holds a private session at each regularly scheduled meeting with the Chief Financial Officer, with the External Auditor without management present and with the Chief Auditor without management or the External Auditor present. The Committee holds private sessions with the Chief Actuary and the Appointed 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 Committee

Financial Reporting

1. Reviews with management and the External Auditors and makes recommendations to the Board of Directors on the approval of:

   (a) the interim unaudited consolidated financial statements including the notes thereto, Management's Discussion and Analysis and related news release; and

   (b) the annual audited Consolidated Financial Statements including the notes thereto, Management's Discussion and Analysis and related news release.

2. In conducting its review of the quarterly and annual financial statements:

   (a) discusses with the External Auditors any significant changes that were required in the external audit plan, any significant issues raised with management during the course of the audit or review, including any restrictions on the scope of activities or access to information; and those matters that are required to be discussed under generally accepted auditing standards;

   (b) receives a report from management of their review of financial statements, Management's Discussion and Analysis and related news 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;

   (c) 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;

   (d) discusses with the Chief Actuary and the Appointed Actuary the parts of the annual audited Consolidated Financial Statements prepared by those officers; and

   (e) reviews with management and the External Auditor the Corporation's principal accounting practices and policies.

   (f) Considers emerging industry, regulatory and accounting standards and the possible impact on the Corporation's principal accounting practices and policies.

External Auditor

3. Reviews the independence of 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.

4. Appraises the performance of the External Auditor and recommends to the Board the appointment or, if so determined by the Committee, the replacement of the External Auditor, subject to the approval of the shareholders.

5. 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.

6. 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 Restricting the Use of the External Auditor.

7. 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.

8. Reviews with the External Auditor any regulatory investigations that pertain to the External Auditor.

Internal Control and Audit

9. Requires management to implement and maintain appropriate internal control procedures, and reviews, evaluates and approves the procedures.

10. Reviews management's reports on the effectiveness of Sun Life Financial's disclosure controls and procedures and its internal control over financial reporting.

11. 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.

12. Receives quarterly reports on fraud investigations.

13. Approves procedures established to handle complaints, and anonymous employee submissions, with respect to matters and concerns regarding accounting, internal control and auditing.

Governance

14. Discusses with the External Auditor the finance and control-related aspects of material transactions that are being proposed by the Corporation.

15. Reviews, and discusses with the External Auditor, the Chief Actuary and Appointed Actuary such reports and regulatory returns of the Corporation as may be specified by law.

16. Reviews matters within its mandate that are addressed in the regular examination and similar reports received from regulatory agencies including management's responses and recommendations.

17. Discusses the qualifications for and determines whether a member of the Committee is a financial expert and in conjunction with the Governance and Conduct Review Committee ensures the ongoing financial literacy of Committee members.

Other

18. 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

Information 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, MFS, 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 Units. 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 contained in the S-O Act and in any other applicable laws, regulations or rules. The following principles should be applied when considering any engagement of the external auditor:

- An auditor cannot function in the role of management.
- An auditor cannot audit his or her own work.
- An auditor cannot serve in an advocacy role for his or her client.

Specific prohibitions are set out in Appendix I.

Each engagement of the External Auditor to provide services will require the approval in advance of the Audit 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 Audit 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 employed by the External Auditor and who provided services to the Corporation or subsidiary at any time during the previous two years. In addition, the Corporation will not employ or appoint as a member of the board of directors any person who was employed by the External Auditor and who provided services to the Corporation at any time during the previous two years.

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 I – 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 reports;

d) actuarial services;

e) internal audit outsourcing services;

f) management functions or human resources;

g) broker or dealer, investment adviser, or investment banking services;

h) legal services and expert services unrelated to the audit;

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 II – 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 Business Development and General Counsel
- Executive Vice-President, Actuarial and Risk Management
- Executive Vice-President and Chief Risk Officer
- Senior Vice-President and Chief Actuary
- Senior Vice-President and Chief Auditor
- Senior Vice-President, Finance
- Senior Vice-President, Tax
- Senior Vice-President, Treasurer
- Vice-President and Appointed Actuary
- Vice-President and Chief Accountant
- Vice-President, Strategic and Financial Planning

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

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Message from the CEO

Longevity is one measure of the consistent, high standard of business practice that underpins a financial services company's reputation. We at Sun Life Financial take pride in our history, which dates back more than 140 years.

Our success as a company is founded on our values, our rigorous governance practices and transparency in all our business dealings. Our Code of Business Conduct outlines these values and explains how we put them into practice every day. This is asked of each of us throughout our organization, regardless of rank or position.

> "We come to work every day with a commitment to the highest standards of honesty and integrity in the way we treat our employees and serve our customers. Acting ethically is more than how we work. It's how we *think*."
>
> *Donald Stewart, Chief Executive Officer*

At Sun Life, we come to work every day committed to the highest standards of professionalism, honesty and integrity. This applies in the way we treat our employees and serve our customers. Acting ethically is more than how we work. It's how we *think*.

Now more than ever, we must renew our focus on business ethics and conduct. Our industry has been buffeted by economic turbulence on a global scale. In the midst of this, our brand and our reputation have remained steadfast. I am asking all of you to work with me to build on these strengths. Our Code of Business Conduct is our guide.



Donald A. Stewart

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.

Applying the Code

Does the Code apply to me?

The Sun Life Financial Code of Business Conduct applies to all people on Sun Life's payroll and all directors of Sun Life Financial Inc., its subsidiaries and joint venture companies, other than those companies that have adopted a code of business conduct that is consistent with the spirit of the Code. Compliance with the Code is mandatory and a condition of your employment.

We are all responsible for:

- reading, understanding and complying with the Code and any policies or supplementary codes of business conduct that may apply to us,
- asking for guidance when necessary, and
- reporting suspected violations.

You must read, understand and comply with the Code.

Annual Code Acknowledgement

Each year, you will be asked to reaffirm your commitment to comply with the Code and to confirm you have complied with it over the last year by completing the Annual Code Acknowledgement. At that time you will also be asked to report any Code breaches of which you are aware (even if you previously reported them to management).

Q I have been hired by Sun Life as a temporary employee. Am I required to complete the Annual Code Acknowledgment?

Yes. All employees, including temporary employees and contract employees, on Sun Life's payroll system are required to complete the Annual Code Acknowledgement. This confirms that you have complied with the Code while you have been employed by Sun Life 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?

Most employees receive the Annual Code Acknowledgement by email in early December and complete it on-line by early January. If you do not have computer access, a hard copy will be provided to you. Employees on leave will be asked to complete the Annual Code Acknowledgement when they return to work.

Apply the spirit of the Code to situations you encounter at work.

How do I apply the Code in my business dealings?

Our reputation is one of our most important assets. Our customers may own our products for decades before they make a claim. They expect us to operate with integrity and maintain our sound reputation.

While the Code does not provide specific guidance on all situations you may encounter at work, you should keep in mind the importance of our reputation and not do or condone any activity that could damage it. If you encounter a difficult situation, ask yourself the following questions:

- Is this legal?
- Is this fair and ethical?
- Am I confident that Sun Life would not be embarrassed if this situation became public knowledge?
- Would I approve of this situation if I were a co-worker, a customer or a shareholder?

You should be able to answer "Yes" to each question. 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. If you have any questions as to how to apply the Code in any situation, consult your manager, human resources, a compliance officer or a member of the law department.

Where can I find more information about the Code and how to apply it?

If you are unsure how to apply the Code in any situation:

- Discuss the matter with your manager, human resources, a compliance officer, someone in the law department or an appropriate person identified in the Contact Lists on The Source.
- Review additional information about the Sun Life Financial Code of Business Conduct on The Source if you have access to the Company intranet.
- Email SLF_Code_of_Business_Conduct@sunlife.com.

Reporting Code breaches

We must all take an active role in ensuring the Code is applied throughout Sun Life.

How do I report a breach of the Code?

Advise your manager, human resources, a compliance officer or someone in the law department if you believe ***YOU*** may have contravened the Code.

If you know or suspect that ***SOMEONE ELSE*** has contravened the Code or you feel you are being pressured to violate the law or your ethical responsibilities, advise your manager, human resources, the general counsel or senior compliance officer in your business group, or the chief compliance officer. If you would prefer to report the situation anonymously, or if you feel that someone has not responded appropriately to your report, use the Employee Ethics Hotline. You can access the hotline either by telephone or through the Internet. It is provided by an outside service provider, and is available to all employees, seven days a week, 24 hours a day.

If you suspect a breach has taken place, do not attempt to deal with the situation yourself. Your identity in any follow-up discussions or inquiries will be kept in confidence to the extent appropriate or permitted by law.



Sun Life does not tolerate retaliation.

What happens when I report a breach?

Sun Life takes violations of the Code seriously and investigates all reports and allegations. Investigations are handled discreetly to the extent permitted by policy or law.

Sun Life strictly prohibits any form of retaliation against employees for reporting concerns in good faith. If you report a breach in good faith, no action will be taken against you even if we cannot corroborate your concern. However, a mischievous or malicious allegation of a breach is itself a breach of the Code.

Violations of the Code may result in disciplinary action, including termination of employment. Any breach of the Code that violates the law may also result in civil or criminal proceedings.

Q Can my employment really be terminated for violating the Code or any of Sun Life's other policies?

Yes. You may be disciplined and your employment may be terminated, regardless of your position.

Q What happens when I use the Employee Ethics Hotline?

If you use the Employee Ethics Hotline:

- Specially trained employees from an external service provider will create a confidential report based on your call or on-line submission. You do not need to give your name if you'd rather remain 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.
- A senior compliance officer will complete a follow-up report. The service provider will give you a report number so you can call or check back on-line for a status update or to add more details to your report later.

Note: for technical reasons Sun Life employees in the United Kingdom who wish to remain anonymous should use the Employee Ethics Hotline telephone service rather than the Internet.

Other obligations

As a result of your specific position within Sun Life or your professional background, you may be required to comply with other obligations, such as:

— supplementary codes of business conduct relating to specific activities, companies or business units within Sun Life,

— rules of conduct governing members of your professional group or association, and

— Sun Life standards governing specific situations you may encounter in your work.

A list of Sun Life policies and standards that relate to various Code sections is set out at the back of the Code.

If you have any questions about whether a supplementary code of business conduct, policy or standard applies to you, please talk to your manager.

If you are a manager you should:

— act ethically and foster a work environment that reflects the content and the spirit of the Code,

— encourage 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, and

— support and protect those who report breaches.

Managers, by virtue of their positions of authority, must act as ethical role models for others.

We all have many stakeholders – customers, co-workers, regulators, shareholders, our industry and our communities. They expect us to reflect Sun Life's values in our actions and act with integrity. The Code sets out some specific ways we show our stakeholders that we are an ethical organization.

Complying with the law

Acting ethically requires each of us to take all reasonable steps to understand and comply with the laws, rules and regulations that apply to our positions within Sun Life. It also requires us to work to the spirit of the law.

You should 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, a compliance officer, or the person in the law department primarily responsible for advising your business unit or function of the conflict.



"It's not enough to know my job. I also need to know the laws affecting my job."

My job is very technical and many different laws apply to the work I do. How can I be sure that I won't violate an aspect of one of these laws?

Your manager and the person in the law department primarily responsible for advising your business unit or function will be familiar with the laws that apply to your work. Do not hesitate to contact either of them if you need clarification.

Deterring fraud

Our stakeholders expect us to conduct ourselves honestly and with integrity. None of us should participate in any type of dishonest or fraudulent behaviour that may affect Sun Life, our customers or our co-workers. Some examples of fraud are listed in the Fraud Risk Management Standard.

Sun Life does not tolerate fraud. You can help to ensure that we continue to operate ethically by reporting any suspected fraud incidents, whether committed by a co-worker or a third party, to your fraud reporting officer or through the Employee Ethics Hotline. 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.

"I need to be aware of what's going on around me."



I am concerned that my colleague may be committing fraud against Sun Life, but I am not really sure. What should I do?

Call your fraud reporting officer or use the Employee Ethics Hotline to report your concern.

What do people mean when they talk about fraud?

Fraud is any dishonest act or omission intended to deprive or mislead others for personal or corporate gain. Fraud includes criminal deception, the use of false representations to gain unjust advantage, and dishonest schemes or tricks. Examples of fraud include misappropriating customers' funds, submitting dishonest claims and identity theft.

Combatting money laundering and terrorist financing

You must actively protect Sun Life's products and services from being used for money laundering, terrorist financing or other criminal activity.

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. We must all actively protect Sun Life'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 premium payments, surrenders or other activities to your money laundering reporting officer. If you fail to do so Sun Life may be exposed to the risk of legal sanction, financial penalties and reputational damage. Ask your manager or refer to the Contact Lists on The Source for the name of the money laundering reporting officer in your area.

What are some signs of money laundering?

Pay close attention to customer transaction requests or behaviour that seems out of the ordinary, such as:

- 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 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,
- offers of money for providing services that appear unusual or suspicious, and
- admissions or statements about involvement in criminal activities.

Consult the Anti-Money Laundering and Anti-Terrorist Financing Policy for more information.

Avoiding conflicts of interest

One important way we demonstrate our integrity is by ensuring that we do not put our interests ahead of those of our customers or shareholders, and do not appear to do so. Many situations could give rise to a potential conflict of interest. Actions we take on behalf of Sun Life must not be influenced by the possibility of gain for ourselves or for anyone personally associated with us. It is also important to avoid any appearance of a conflict.

Other sections of the Code set out some of the more common conflicts, but they are not exhaustive. If you have questions, speak to your manager or a compliance officer.

You must avoid any conflict or appearance of a conflict between your personal interests and those of Sun Life.

"When it comes to contracting out, business and family don't mix."



Q **May I hire my brother to do some contract work for Sun Life if his rates are the best rates available?**

No. Sun Life generally prohibits business dealings with employees' family members. Regardless of your brother's rates, Sun Life 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. Consult human resources for more information.

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?**

Yes. One of your husband's competitors or a co-worker could claim that your husband is getting Sun Life's business because you are a Sun Life employee. You should ensure that you are independent, and are seen to be independent, from any business organization that provides goods or services to Sun Life. Notify your manager and make sure you are not involved in any decisions regarding retaining or overseeing your husband's company.

Trading in securities

When we invest in the stock market our decisions must not be based on material non-public information we learn through our employment or relationship with Sun Life. You must not trade in Sun Life 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 "tip" or pass this information on to others, or even share it with co-workers, other than those who have a need to know it to carry out their jobs at Sun Life.

If someone asks you for information about Sun Life that is not generally available to the public, please direct that inquiry to Public and Corporate Affairs or a member of the law department.

"Material information" is any information that a reasonable investor would consider important in deciding whether to buy, hold or sell the securities of a publicly traded company. There are also certain types of information that may become material over time (e.g., proposed business transactions). Consult the Disclosure Policy, Securities Trading Policy or someone in the law department as to whether information is material.

You may be subject to additional requirements depending on your specific employment at Sun Life. These may include pre-clearing your personal investments, trading public company securities only during specified periods, and filing insider-trading reports.

Q I overheard in the elevator that Sun Life is planning to acquire XYZ, a large public company. May I trade XYZ shares?

No, and you also must not trade in Sun Life securities. The prohibition on trading is not affected by how you obtained the information. Please refer to the Securities Trading Policy for assistance.

Q I am part of a team that supports the release of our quarterly financial results. In the days leading up to the release, I see draft documents setting out the results. Is it okay for me to discuss this information in general with people outside of Sun Life if I don't refer to specific financial results?

No. This information is not yet public and should be treated as confidential. If you disclose any material information you may also be breaking securities laws.

Rejecting corruption and bribery

We do not, directly or indirectly, engage in bribery, kickbacks, payoffs or other corrupt business practices in our business relationships including with suppliers, customers and government representatives.

Many countries in which Sun Life operates have specific anti-corruption legislation. These generally prohibit companies from giving or offering anything of value to a government representative to influence a decision or assist the company in doing business.

Although you may make certain payments to facilitate routine government actions such as obtaining visas, it can be difficult to determine what is allowed. For this reason, other than for legally prescribed fees and similar payments, you should obtain advance approval from your business group general counsel or senior compliance officer before you give any business-related gift to a government representative.



Accepting and giving gifts and entertainment

Talk to your manager or compliance officer if you are unsure about whether you should accept or give a gift.

From time to time many of us are offered, or may provide, gifts, favours, benefits or entertainment in the course of our work.

You should not accept any benefit 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. Consider the following criteria when accepting or offering benefits:

- is the value involved nominal? (Check local policies or speak to your manager for guidance on what constitutes nominal in your business group as this can vary.)
- does this occur frequently?
- does the exchange create a sense of obligation on either party?
- would it embarrass Sun Life or the recipient if publicly disclosed?
- does it violate anti-corruption laws?

Depending on your position at Sun Life you may also have an obligation to report or seek pre-approval of gifts. 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 Sun Life product or service.

I work in strategic sourcing at Sun Life and 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?

No. The supplier's offer is too generous. You should decline the offer because it may influence your decision as to whether to use the supplier or, at the very least, it could appear to influence your decision.

I'm a communications consultant in a business unit. From time to time I hire 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?

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.

Respecting privacy and confidentiality

We are all responsible for protecting confidential information – whether about Sun Life or our customers or co-workers – against theft, loss, unauthorized access, disclosure, destruction or misuse.

Personal information

Respecting our customers' and employees' privacy is critical to maintaining our ethical reputation and building strong business relationships. We accumulate a great deal of information about our customers and employees, and have an obligation to limit the collection, access, use and disclosure of this information as outlined in the Sun Life worldwide privacy commitment.

You must protect personal information about Sun Life customers and employees.

Specifically, we must collect, use or disclose personal information lawfully and fairly, and disclose it only with the permission of the person to whom it relates unless otherwise permitted or required by law. 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.

We must respect and maintain the confidentiality of our employees' personal information such as salaries, performance reviews or disabilities. Do not share this information with anyone unless it is directly related to performing your job.

Access to personal information within Sun Life is generally restricted to those employees who have a legitimate business reason to access it. In some cases, we may communicate or transfer personal information to employees, agents and service providers (even in other countries). In this case, the information may be subject to the laws of those jurisdictions. All of these persons, wherever they are located, must be required to protect the confidentiality of this personal information.

I am a call centre employee and recently received a call from someone asking whether his former spouse (our client) had removed him as the beneficiary of her policy. Should I answer his questions?

No. All policyholder, customer and employee information must be kept confidential. Our client is the policyholder not the beneficiary, and only the policyholder can grant permission to share her confidential information.

Only authorized people may speak for Sun Life.

Information about Sun Life

Other than information produced and disclosed in the ordinary course of business, all information about Sun Life and its business is confidential and should not be disclosed to anyone outside Sun Life, including family and friends, or to your co-workers unless they need to know the information to carry out their employment. You are expected to keep confidential any information you acquire about Sun Life during your employment, even after you leave the company.

You should not speak for Sun Life, or imply you are doing so, unless you are specifically authorized. Some external communications such as articles for publication, presentations and remarks made on behalf of Sun Life may require review prior to release. Consult the law department or communications for more information.

In addition to everyday communications with outside persons and organizations, you may on occasion be asked to express your views to the media. Please immediately contact the communications representative in your area if the media approach you. As a general rule, public and corporate affairs will respond to questions about Sun Life's positions on public policy or industry issues.

Q How about social networking? Can I blog about Sun Life?

We support the use of social media and believe it will be an integral part of the way we do business in the future. We must, however, take a balanced approach in the use of social media when it relates to any aspect of our business.

You must ensure that you have appropriate managerial approval to use social media for business purposes. In your personal use, you should not represent or imply that any personal opinions are approved or endorsed by Sun Life. As with any other communication, you should refrain from discussing or commenting on Sun Life's internal business matters or affairs on social media sites or pages. Depending on your position with Sun Life, there may be additional restrictions on your use of social media. If you're not sure, ask your manager or someone in the law department.

Q What may I talk about when in trade association and industry meetings?

Trade association members are also our competitors, and if you are appointed to represent Sun Life in a trade association or other organization, your contributions must respect the confidentiality of Sun Life's information. Consult with someone in the law department or public and corporate affairs for more information.

Promoting fairness in the workplace

Our employees are critical to our success. We are committed to fairness in the workplace and recognize that a diverse workforce allows us to serve our customers most effectively. We will not tolerate unlawful discrimination, harassment or violence at work.

Specifically, we do not unlawfully discriminate against co-workers, customers or anyone else we encounter in the course of our 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. We do not engage in threatening, intimidating or violent acts against co-workers, customers or anyone else encountered in our work. Sexual or other harassment, or offensive behaviour such as verbal abuse or unnecessary physical contact, are also prohibited.

At all times treat your co-workers, customers and others with respect and dignity.

"It's fun to work with people from so many different backgrounds."



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?

No. All employment decisions must be based on job-related criteria, skills and performance. Contact human resources for more information, or check local human resources standards.

My teammates sometimes tease me about my national origin. I don't think they mean any harm by it, but it makes me feel uncomfortable. Should I report them?

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, compliance officer or human resources. A report can also be made using the Employee Ethics Hotline.

Engaging in outside activities or employment

An important component of employee engagement relates to our ability to participate in our communities. We encourage you to be involved with outside organizations provided this does not create or appear to create a conflict of interest or interfere with your responsibilities at Sun Life.

To reduce the possibility of a conflict of interest, you may not engage in any work for, or serve on the board of, any organization that is publically traded or competes with or has a business relationship with Sun Life without written approval from your manager and your business group's general counsel. You should also consult with the law department before you join the board of directors of any company other than a charity, non-profit organization, condominium or family businesses.



Do not speak for Sun Life or imply you are doing so in the course of your outside activities unless this has been specifically authorized in advance. Consult the human resources department or a person in the law department, who will arrange to seek the appropriate approval.

Our funds, facilities or services may not be used for the benefit of political parties or their candidates except as specifically authorized in advance. We also have a process for dealing with charitable and philanthropic spending. Please consult public and corporate affairs for information about these types of contributions.

"Sometimes I think nothing would get done at my condo if I weren't on the board."

Q **May I work for another company if the hours don't conflict with those I'm required to work at Sun Life?**

That depends. You may not take on another job that creates a conflict of interest with your position at Sun Life.

A second job must be kept completely separate from your Sun Life position and must not interfere with your responsibilities and performance as a Sun Life employee.

Sustainability

We are committed to the principle of sustainability in the conduct of our business. This means ensuring that we meet the needs of the present in an responsible manner, so that we do not compromise the ability of future generations to meet their needs. We must all strive to conduct our business in a way that helps to reduce our environmental footprint. If you have any suggestions to improve the sustainability of our business practices, please submit them to the Sustainability Program on The Source.

Competing fairly

One of our obligations as an ethical company is to support our industry and encourage fair competition. Although we compete vigorously in every market in which we participate, we are committed to conducting business in compliance with all competition or antitrust laws. As specific prohibitions imposed by these laws vary, competing fairly and ethically in all our business activities is the most effective way to avoid contravening these rules.

Antitrust or competition laws prohibit Sun Life from engaging in activities intended to lessen competition. This means we cannot make agreements with competitors to fix prices or allocate sales, customers or territories. We may also not discuss with outsiders strategic information on topics such as pricing, product development and customer lists. Even if we do not intend these discussions to result in actions that restrict competition, they could be interpreted that way, and could be illegal whether or not they lead to a restriction of competition.

Sun Life recently hired an executive from another financial services company. In his role at our competitor he had access to important proprietary information that would be quite helpful. May we ask him to share this information?

No. The new employee has an obligation to protect the confidentiality of his former company's information. You may only obtain information about competitors through publicly available information such as annual reports, expert analyses, press releases, the Internet, trade journals and so on.

At a recent meeting of industry professionals an attendee representing another company asked me if there would be any interest on Sun Life's part in entering into an 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?

Yes. The proposal was in violation of competition law and you must report it to someone in the law department responsible for advising your business unit or function.

Dealing with Sun Life assets

Using technology appropriately

The Internet, our intranets and email are important business resources and provide broad access to information. It is important that we use this technology appropriately.

Sun Life's electronic communications systems are its property and should be used primarily for Sun Life business purposes. Incidental appropriate personal use is permitted provided it does not interfere with your business activity or Sun Life's business applications.

Keep in mind that email records are more permanent than you might think – they can be retrieved even after they appear to have been deleted. If Sun Life becomes involved in litigation or an investigation, all correspondence may have to be turned over to third parties. Be careful when using email and avoid careless, exaggerated or inaccurate statements that could be misunderstood or used against you or Sun Life in a legal proceeding.

To monitor personal use, certain employees are authorized to check individual activity periodically. You should not expect that any of your email or Internet communications are private.

I sometimes receive funny emails at my Sun Life address. Some of them could be offensive – have I breached the Code simply by reading these emails?

No, but you should ask these people not to send you any more of these emails. It is not appropriate for you to receive or send jokes that are potentially offensive to others. You need to be aware that email is not private and may be monitored, and that you are responsible for taking reasonable steps to ensure the emails you send and receive do not violate the Internet/E-communication Access and Use Policy.

My friend gave me software that could help me prepare a presentation for an upcoming sales conference. Am I allowed to install it on my Sun Life computer?

No. You should not load any type of software onto Sun Life's equipment. Consult the Internet/E-communication Access and Use Policy for more information.

Using and protecting Sun Life assets

We must all take reasonable steps to use Sun Life assets only for legitimate business purposes and to protect those asset against loss, theft, damage and misuse.

Do not remove furniture, equipment, supplies, or files and other information from Sun Life premises without authorization. If you are authorized to work at home or off-site, you are expected to keep Sun Life assets safe.

Be careful not to:

- breach any copyright laws or regulations when making copies of documents or software, or
- permit others to use Sun Life's assets, such as its trademarks, without appropriate consent.

You are responsible for keeping confidential information safe.

Expenses

We can be reimbursed only for reasonable expenses related to Sun Life business activities. Ensure expenses are documented and approved in keeping with expense reimbursement standards.

"I need to be careful not to disclose sensitive information when using public transit."



Is it okay for me to download music from the Internet to my Sun Life computer?

No, this is not appropriate for many reasons. Copyrightable material may not be downloaded without the consent of its owner or publisher. This could also expose our network to viruses.

Keeping books and records

You must ensure that your accounting and financial records meet the highest standards.

Sun Life is required to maintain accurate, reliable and complete records to meet its legal and financial obligations and to manage its affairs. These books and records should reflect accurately all business transactions and be retained in accordance with Sun Life's Records Management Operating Guideline. Failing to disclose or record revenues, expenses, assets or liabilities is prohibited.

Each of us is responsible for the integrity of books and records under our control. If you are responsible for creating, receiving or maintaining records, be diligent in enforcing proper practices. Keep in mind that you must preserve documents that could be potentially relevant to any litigation or any pending, threatened or reasonably foreseeable government investigation.



"Even though I'm not a manager or executive, my emails could be important."

The Sun Life Records Retention Schedule requires me to retain certain types of documents in my business area for a set number of years. How do these retention periods apply if a document might be relevant to a suspected violation of law or an investigation?

You must retain all documents relating to suspected violations of law, or imminent or reasonably foreseeable investigations or litigation. For more information consult the Records Management Operating Guideline, your records officer or someone in the law department responsible for advising your business unit or function.

I regularly clean out my email inbox. Are there any rules as to which messages should be kept and which should be deleted?

Some emails are business records and should be retained for the same duration as similar paper records. See the Records Management Operating Guideline for more information.

Maintaining appropriate controls

We all participate in Sun Life's internal control framework. Internal controls help us achieve our business objectives, mitigate risks and meet our ethical obligations to our customers and other stakeholders. Our internal controls are designed to provide reasonable assurance that:

- our operations are effective and efficient,
- our financial reporting is reliable, and
- we comply with laws and regulations.

Our commitment to internal control is reflected in Sun Life's strong control environment, which includes:

- the Sun Life Audit Committee, which provides oversight and guidance over internal control practices and Sun Life's financial reporting,
- a commitment to acting ethically as set out in the Code,
- a sound organizational structure reflecting clear and appropriate accountabilities and authorities, and
- competent and appropriately compensated employees.

"I didn't realize how important internal controls were in helping us achieve our business goals."



We are all responsible for Sun Life's internal controls and we should understand how they relate to our roles. Working with your manager, you should:

— clearly understand your department's objectives and how your role contributes to achieving them,

— establish and maintain control activities appropriate to achieving your objectives and mitigating associated risks,

— be aware of changes in your business or business environment affecting your role, and adapt your control activities appropriately, and

— continually monitor the appropriateness and effectiveness of internal controls for which you are responsible, and resolve related problems on a timely basis.

Be sure to inform your manager and other affected areas when problems occur – regularly communication maintains control awareness. If you are unsure how your role is affected by or contributes to internal control you should speak to your manager.

What is a control activity?

Control activities are processes we put in place to support our business objectives, to minimize risks and to help detect when things go wrong. Examples include:

- company policies, standards and guidelines,
- segregation of duties,
- management reviews of key documents and information,
- automated controls over information processing (validation checks, approval limits, exception reports), and
- controls over access and changes to computer applications.

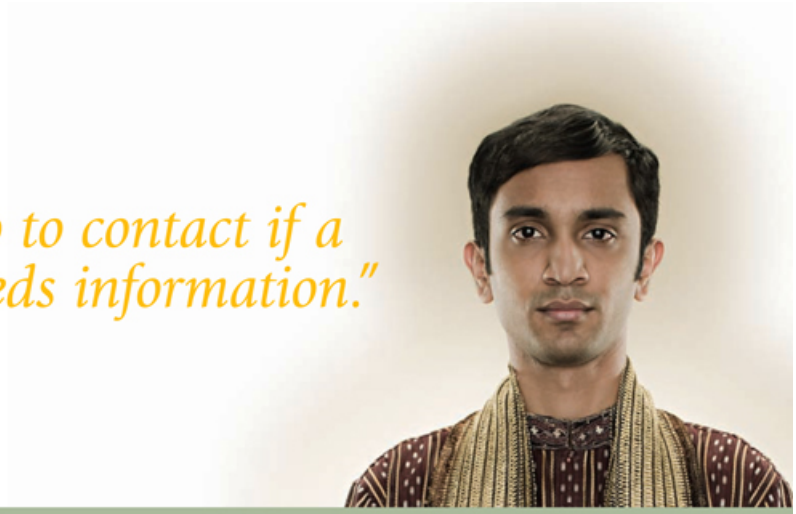
While control activities do not *guarantee* protection from risks, they should provide *reasonable assurance* that these risks are appropriately mitigated.

Dealing with regulators, auditors and others

Our reputation is built on our daily interaction with our customers, our shareholders and the public. We can all build Sun Life's value by meeting the highest standards of professional conduct.

Specifically, we cooperate with lawful investigations and inquiries by regulators, law enforcement agencies, external and internal auditors and other investigators. We provide accurate and factual information to them, and do not mislead or attempt to improperly influence them. You should not tamper with any document to obscure the true nature of a transaction in Sun Life's records or to impede or influence an audit, regulatory review or investigation. If you suspect information is not being provided as required, report your concerns to your compliance officer or someone in the law department.

Advise your compliance officer or senior manager in your business group of any requests that are outside the normal course of business, such as special audits, questionnaires or inquiries related to industry-wide investigations, as well as any regulatory complaint, fine or disciplinary action.



Need help?

The Code is a reference tool; it does not replace Sun Life standards or more detailed guidance. If you are not sure how to apply the Code in any situation:

— talk to your manager,

— contact someone identified in the Contact Lists on The Source, or

— send an email to SLF_Code_of_Business_Conduct@sunlife.com.

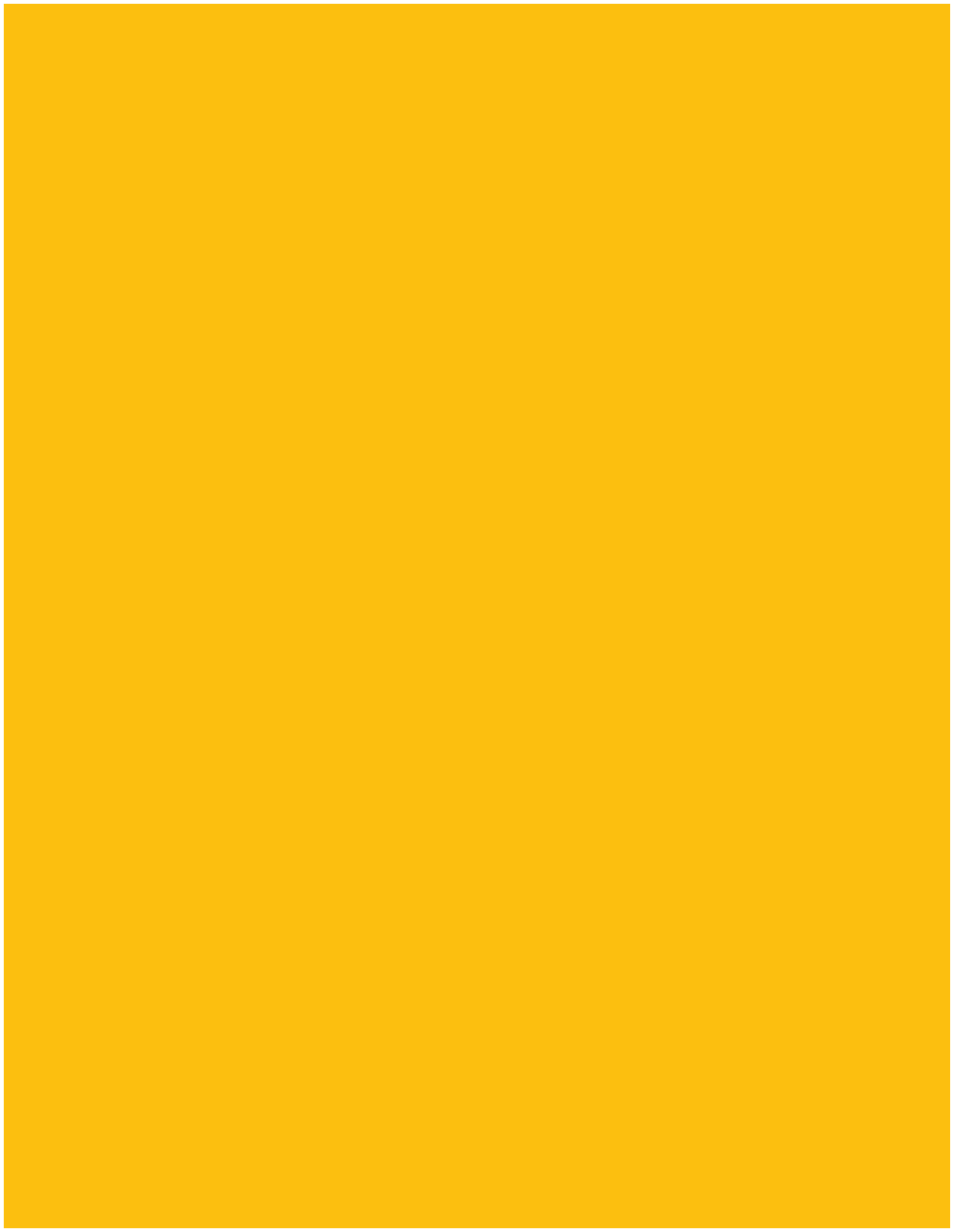
You may access Sun Life policies and standards through the following links or directly through The Source. Speak to your manager if you do not have access to The Source.

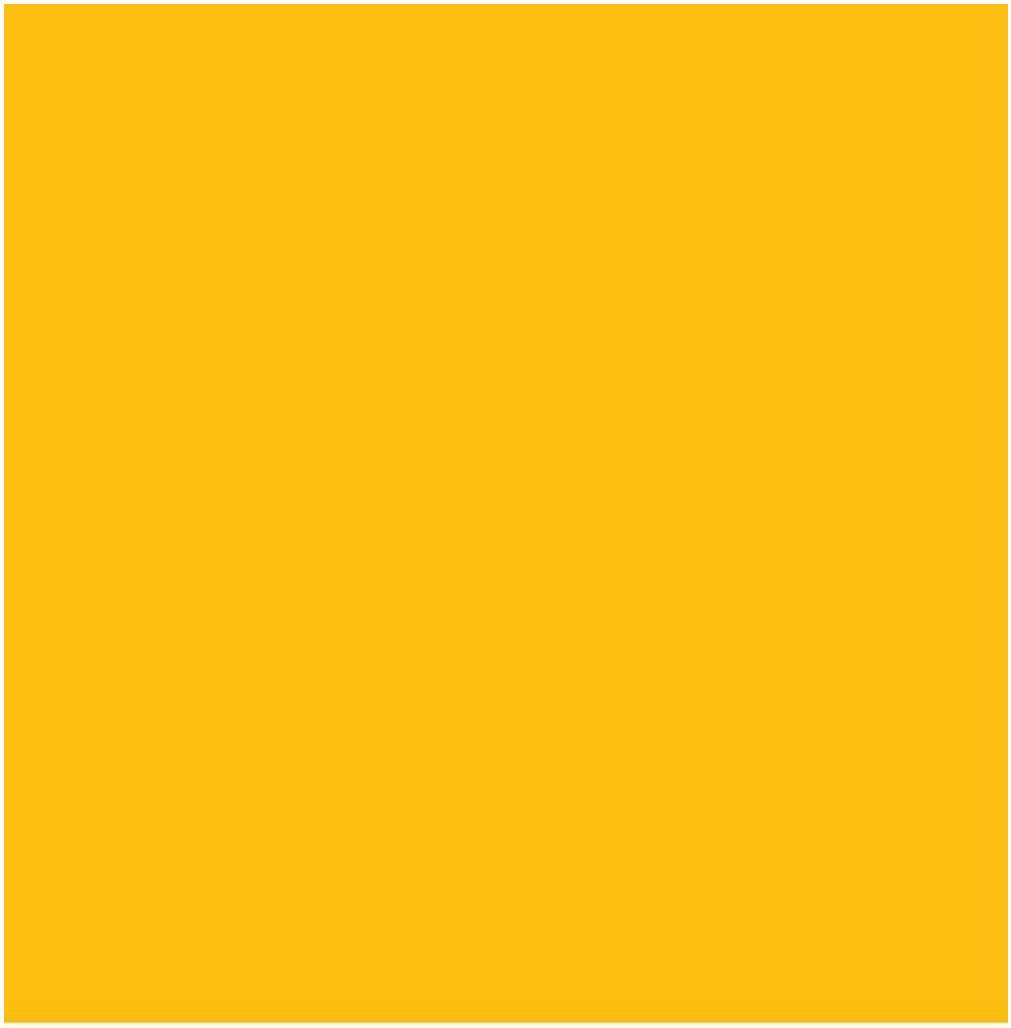
Issue	Page	Relevant policy or standard/contact
Anti-money laundering and anti-terrorist financing	10	Anti-Money Laundering and Anti-Terrorist Financing Policy
Books and records	22	Fraud Risk Management Standard; Records Management Operating Guideline
Communicating with others	15, 20, 25	Disclosure Policy; Internet/E-communication Access and Use Policy; Privacy Commitment
Company assets	20	Internet/E-communication Access and Use Policy; Security Policy
Competing fairly	19	Someone in the law department responsible for advising your business unit or function
Complying with the law	8	Someone in the law department responsible for advising your business unit or function
Confidential information	12, 15	Disclosure Policy; Privacy Commitment; Securities Trading Policy; Security Policy; Supplementary Code of Conduct for Investment Operations
Directorships	18	Someone in the law department responsible for advising your business unit or function
Expenses	21	Local travel and expense reimbursement standards
Fairness in the workplace	17	Local human resources standards

Issue	Page	Relevant policy or standard/contact
Fraud	9	Fraud Risk Management Standard
Gifts and entertainment	14	Supplementary Code of Conduct for Investment Operations
Media communications	16	Disclosure Policy
Outside activities or employment	18	Someone in the law department responsible for advising your business unit or function
Personal relationships	11	Local human resources standards
Personal safety	17	Security Policy
Privacy	15	Disclosure Policy; Internet/E-communication Access and Use Policy; Privacy Commitment; Security Policy
Regulatory investigations	25	Compliance officer or someone in the law department responsible for advising your business unit or function
Reporting Code breaches	5	Your manager, a compliance officer, the general counsel or senior compliance officer within your business group, the chief compliance officer, Employee Ethics Hotline, SLF_Code_of_Business_Conduct@sunlife.com
Securities trading	12	Securities Trading Policy
Sustainability	19	Sustainability Program
Technology	16, 20	Information Security Policy; Internet/E-communication Access and Use Policy; Security Policy

There may be local standards that correspond to the above enterprise-wide policies. Please check your local intranet or ask your manager.

Notes





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03/10

Sun Life Financial

EXHIBIT 5

Deloitte.

Deloitte & Touche LLP
Brookfield Place
181 Bay Street
Suite 1400
Toronto ON M5J 2V1
Canada

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

Consent of Independent Registered Chartered Accountants

We consent to the incorporation by reference in the Registration Statements Nos. 333-90920, 333-105310 and 333-151733 on Form S-8 and to the use of our reports dated February 16, 2011 relating to the consolidated financial statements of Sun Life Financial Inc. (the "Company") and the effectiveness of the Company's internal control over financial reporting appearing in this Annual Report on Form 40-F of the Company for the year ended December 31, 2010.

/S/ "Deloitte & Touche LLP"
Independent Registered Chartered Accountants
Licensed Public Accountants
February 16, 2011

Membre de / Member of Deloitte Touche Tohmatsu

EXHIBIT 6

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.:

My report dated February 16, 2011 on the valuation of the policy liabilities of Sun Life Financial Inc. and its subsidiaries for its consolidated balance sheets at December 31, 2010 and 2009 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.

Dated February 16, 2011

/S/ "Lesley Thomson"

Lesley Thomson

Fellow, Canadian Institute of Actuaries
Toronto, Canada

EXHIBIT 7

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, 2010 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 with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 17, 2011

/S/ "Donald A. Stewart"
Donald A. Stewart
Chief Executive Officer

Date: February 17, 2011

/S/ "Colm J. Freyne"
Colm J. Freyne
Executive Vice-President and
Chief Financial Officer

This certificate has not been, and shall not be deemed to have been, "filed" with the Securities and Exchange Commission.

EXHIBIT 8

CERTIFICATION

I, Donald A. Stewart, certify that:

1. I have reviewed this annual report on Form 40-F of Sun Life Financial Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and 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 17, 2011

/S/ "Donald A. Stewart"
Donald A. Stewart
Chief Executive Officer

CERTIFICATION

I, Colm J. Freyne, certify that:

1. I have reviewed this annual report on Form 40-F of Sun Life Financial Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and 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 17, 2011

/S/ "Colm J. Freyne"
Colm J. Freyne
Executive Vice-President and
Chief Financial Officer