This Analysis provides a discussion of the factors underpinning the credit rating/s and should be read in conjunction with our Credit Opinion. The most recent ratings, opinion, and other research specific to this issuer are provided on Moodys.com. Click here to link.

Analysis

May 2004

Contact	Phone
New York	
Peter Routledge	1.212.553.1653
Robert Blanchard	
Robert Riegel	

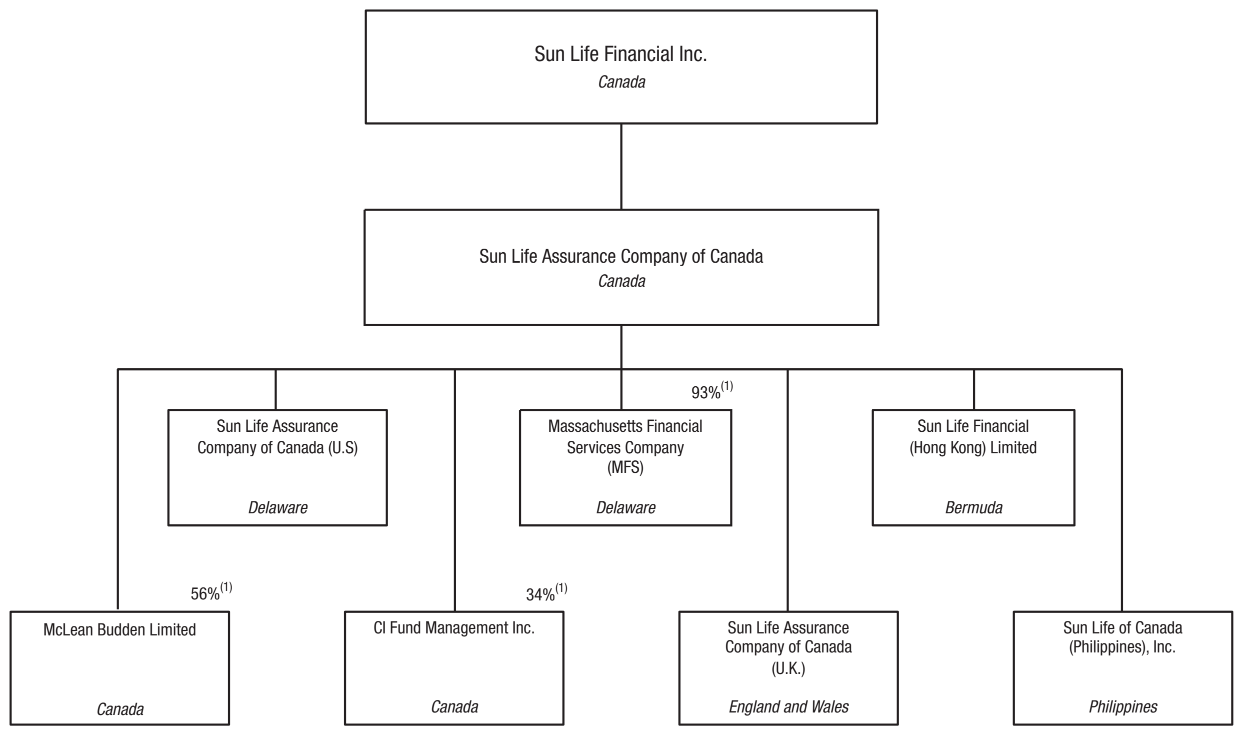
Sun Life Assurance Company of Canada

Issuer Profile

CORPORATE STRUCTURE AND OWNERSHIP

Headquartered in Toronto, Ontario, Sun Life Assurance Company of Canada (Sun Life) is the primary Canadian operating company of Sun Life Financial Inc. (SLF), a major North American financial services group. In the United States, it conducts its annuity operations through its Delaware-domiciled subsidiary Sun Life Assurance Company of Canada (U.S.) (Sun Life US), its individual and group life insurance business through the U.S. branch of Sun Life, and its investment management operations via the Massachusetts Financial Services Company (MFS). It also has smaller operating subsidiaries in Asia and the United Kingdom.

Exhibit 1 — Sun Life Assurance Company of Canada
Simplified Organization Chart



91) As at December 31, 2003

BUSINESS ACTIVITIES

In Canada, Sun Life competes in all major life insurance markets, including individual life insurance, annuities, group benefits and retirement services, and reinsurance. In the United States, Sun Life US competes in four core markets: annuities, individual life and health insurance for affluent clients, group life and health insurance for small- to medium-sized companies, and investment management. In Asia, Sun Life provides individual insurance to consumers in the Philippines, Hong Kong, India, China and Indonesia; group insurance in the Philippines and India; and wealth management in the Philippines and India. In the United Kingdom, Sun Life manages a run-off block of annuity and insurance policies. The company no longer offers these products to new customers.

Turning to investment management, Sun Life is the majority owner of MFS, the 11th largest retail mutual fund company in the U.S., as well as a mid-sized, Canadian institutional fund manager, McLean Budden. It also holds a 34% stake in C.I. Fund Management Inc. — the second largest retail fund company in Canada.

DISTRIBUTION

In Canada, Sun Life distributes its products primarily through its Independent Career Advisor (ICA) channel which comprises approximately 4,135 independent sales advisors, managers, and product specialists. In the United States, Sun Life executes a "wholesale-centric" strategy, distributing its products primarily through third-parties. Note, when Sun Life US acquired Keyport, it also acquired the Independent Financial Marketing Group Inc. (IFMG), the largest wholesaler of annuities through banks. In Asia, Sun Life distributes products via general agencies and third-party channels.

MARKET POSITION

In Canada, Sun Life benefits from sizable market presence holding the number one, two, or three market share positions in all major product areas. In the United States, it does not enjoy the same level of market clout. It is a middle-tier provider that holds top 20 market share positions and typically 1%-3% market shares. Sun Life is the number two provider of individual life insurance in the Philippines, while its joint venture in India is the second largest privately owned life insurer and fourth largest private sector mutual fund company. In addition, Sun Life operates fast-growing operating companies that are comparatively small players in Hong Kong, India, and China.

Company Fundamentals

LEADING CANADIAN LIFE INSURANCE GROUP

Sun Life is a leading life insurance company in Canada — a market dominated by the three largest life insurance groups: Sun Life, Manufacturers Life Insurance Company (Manulife), and Great-West Life Assurance Company (Great-West Life). Sun Life's leading position is a durable competitive advantage in a market where the top three players hold 55-70% shares of the industry's major product lines.

Within its peer group, Sun Life maintains the number one position in group retirement and life retrocession; the number two positions in individual insurance; and the number three spot in group benefits. With the recent amalgamation of the Maritime Life Assurance Company into the Manulife (as part of its acquisition of John Hancock Financial Services, Inc.), Sun Life's relative standing in various product lines could shift down. We expect its absolute market share position, however, to remain stable. Protecting Sun Life's competitive position are the company's scale, service platform, and a sizable multi-channel distribution network.

In 2003, Sun Life's main Canadian competitors got bigger and stronger via acquisition. Manulife announced it would acquire John Hancock while Great-West Life acquired the Canada Life Assurance Company. Notably, these acquisitions were a response to Sun Life's own acquisition of Clarica Life Insurance Company (Clarica) in 2002.

Despite the growing market clout of its Canadian competitors, formidable barriers to domestic entry will continue to protect its domestic franchise. Its brand is among the most recognized in Canada, and the company has built competitive origination and servicing platforms in all its business lines. Two additional barriers to entry are the following: (1) the Canadian Insurance Companies Act, which effectively bars entry from other large domestic or foreign financial institutions via acquisition; and (2) an oligarchic market structure, dominated by the three largest life insurers, which tends to discourage new entrants and to reinforce stability in market share.

Note: the Canadian federal government is currently reviewing the guidelines which govern large financial services mergers in Canada. One potential outcome is that banks and life insurers are allowed to merge. While this review is scheduled to be completed in the fall of 2004, political considerations may cause the government to delay the review process, pushing off any structural industry change indefinitely. A lifting of restrictions on bank / life insurance mergers would transform Canadian financial services. Market share dynamics in the life and annuities segments would change slowly, however, as the total number of large competitors would not, in all likelihood, drop below today's three.

SIGNIFICANT LIFE INSURANCE AND ANNUITY PLAYER IN THE U.S.

In 2003, Sun Life competed in the United States through three primary operating companies: (1) Keyport Life Insurance Company (Keyport), (2) Sun Life US, and (3) the U.S. branch of Sun Life Assurance Company of Canada (US Branch). After amalgamating Keyport into Sun Life US on December 31, 2003, the entire U.S. life insurance operates under one master brand. This business is the leading provider of revenue and number two contributor of net income in the group. In 2003, Sun Life's U.S. operations (excluding MFS) generated 44% of Sun Life Financial's consolidated revenues and 23% of reported shareholder net income (see Exhibit 2). Indeed, Sun Life's rating is as strongly influenced by the performance of its U.S. operations as by its Canadian operations.

In the U.S., Sun Life has built an admirably diverse array of product capabilities. It now competes effectively in individual life insurance, variable annuities (VA), fixed annuities (FA), equity-indexed annuities, and group life and health products. Primarily a wholesale distributor of products, Sun Life US also owns the number one distributor of annuities via bank branches, the Independent Financial Marketing Group Inc., or IFMG.

While its U.S. operations is the largest business in Sun Life's portfolio (as measured by revenue), it does not enjoy the market strength its Canadian operation does. At C$9.7 billion in revenue, it holds a relatively small proportion of the overall life insurance market. For example, in variable and fixed annuities, Sun Life ranks 20th and 16th, respectively, with 2% market shares. This relative market position shows up, we believe, in significantly lower margins in the U.S. The U.S. operating margin was 4.2% in 2003, versus 13.5% in Canada.

One way for management to improve market clout and margins is to acquire additional players in the United States. Indeed, with rising share values and an improving economy, Moody's expects a moderate degree of mergers and acquisitions in the U.S. life insurance industry over the next several years. Under the "right" conditions, positive rating pressure could emerge following another U.S. acquisition by Sun Life. The right conditions could include a reduction in financial leverage post-transaction, a substantial increase in market share in one or more product areas, and an increased level of diversity of and predictability in earnings. The converse of these conditions, however, could result in negative rating pressure.

SMALLER PRESENCE IN OTHER GLOBAL MARKETS

Sun Life also has a longstanding presence in the individual life insurance markets in Asia (2.7% of consolidated revenues, 2.8% of reported shareholder net income), specifically Hong Kong and the Philippines. Although Sun Life's presence in the Asian markets is relatively small, these units have provided, and should continue to provide, incremental revenues and earnings to the group.

Sun Life also maintains an operation in the U.K. (6.5% of consolidated revenues; 15.5% of net income at year end 2003). However, the company no longer offers its annuity and insurance products to new customers and the in-force policies are in run-off status. Capital requirements for this block of business are modest and return on equity was a solid 21.5% at year-end 2003.

SIZABLE INVESTMENT MANAGEMENT BUSINESS

Sun Life's principal non-insurance activity is asset distribution and management, conducted through its MFS Investment Management (MFS) subsidiary.

Located in Boston, Massachusetts, MFS is a leading U.S. mutual fund and asset management company, wholly owned by Sun Life and by MFS employees. The company primarily engages in the management and distribution of MFS-brand retail mutual funds (including equity and bond funds, both domestic and international), as well as providing asset management services for institutional investors and pension funds, and for the variable annuity businesses of Sun Life and other insurance companies.

Key Rating Drivers

IMPROVED QUALITY OF EARNINGS

Following the Keyport acquisition in 2001, Sun Life had a well-diversified earnings mix across its four major business lines — Canada, U.S., MFS, and UK & Asia — each contributing about one-quarter of annual earnings (please see Exhibit 2). At the time, we viewed the diversity of Sun Life's earnings as a credit strength. The Clarica acquisition in May 2002 skewed the company's earnings toward its Canadian business. In fact, the domestic unit provided 63% of Sun Life's 2003 reported shareholder net income versus 24% in 2001. This skew actually enhances our view on the quality and predictability of Sun Life's earnings.

Via the Clarica acquisition, Sun Life cemented its market position in Canada — making it number one, two, or three in all its market segments. The oligopolistic nature of the Canadian life insurance industry buttresses the reliability of the company's Canadian earnings stream. The consequent market clout obtained by Sun Life gives it the flexibility to expand its margins and extract attractive economic rents. The end result is that Sun Life has a higher quality earnings base with the Canadian skew because a greater proportion of earnings comes from a business unit with substantial power in its market.

Exhibit 2 — Sun Life Financial, Inc. — Segmented Results (C$ millions, CGAAP), 2001-2003

		Segmented Information			Percent of Total		
Business Unit	**C$ Millions**	**2003**	**2002**	**2001**	**2003**	**2002**	**2001**
Canada	Total Revenues	8,636	6,563	3,855	39%	28%	23%
	Reported Shareholder Net Income	829	513	212	63%	51%	24%
	Assets Under Management	*100,176*	*89,163*	*52,505*	*28%*	*25%*	*15%*
United States	Total Revenues	9,663	11,877	7,811	44%	51%	46%
	Reported Shareholder Net Income	303	374	222	23%	37%	25%
	Assets Under Management	*68,013*	*83,301*	*78,517*	*19%*	*23%*	*22%*
MFS	Total Revenues	1,684	1,979	2,273	8%	9%	14%
	Reported Shareholder Net Income	(43)	174	231	-3%	17%	26%
	Assets Under Management	*181,982*	*179,384*	*220,163*	*51%*	*50%*	*63%*
UK & Asia	Total Revenues	2,030	2,489	2,531	9%	11%	15%
	Reported Shareholder Net Income	240	214	200	18%	21%	23%
	Assets Under Management	*19,685*	*22,043*	*22,181*	*5%*	*6%*	*6%*
Corporate Capital and Adjustments	Total Revenues	43	193	345	0%	1%	2%
	Reported Shareholder Net Income	(20)	(277)	17	-2%	-28%	2%
	Assets Under Management	*(10,832)*	*(13,277)*	*(21,619)*	*-3%*	*-4%*	*-6%*
Total	Total Revenues	22,056	23,101	16,815	100%	100%	100%
	Reported Shareholder Net Income	1,309	998	882	100%	100%	100%
	Assets Under Management	*359,024*	*360,614*	*351,747*	*100%*	*100%*	*100%*

FINANCIAL LEVERAGE HIGHER THAN AA2 COMFORT ZONE

Through acquisitions, Sun Life has built a formidable franchise in Canada and a strengthening one in the United States. Moody's views the resulting increase in market presence, particularly in Canada, as a rating positive. We also believe that this benefit has come at the price of higher risk for the company and its creditors.

Since 2001, Sun Life has made the following acquisitions:

- The U.S.-based Keyport Life Insurance Company (Keyport) for C$2.7 billion in cash (2001)
- The Canadian-based Clarica Life Insurance Company for C$6.9 billion in equity (2002)
- 34% of the Canadian-based mutual fund company CI Fund Management, Inc. for C$936 million in equity and cash (2002-2003)

Exhibit 3 outlines how Sun Life's capital structure has evolved with these acquisitions.

Exhibit 3 — Sun Life Capital Structure, 2000-2003

Sun Life Financial, Inc. Capitalization (CGAAP, C$ millions)	2003	2002	2001	2000
Debt (subordinated and other)	2,543	3,159	1,969	1,989
Debt-like Hybrids (SLEECS)	1,150	1,150	950	—
Preferred Shares	155	158	—	—
Total Debt, Hybrids, and Preferred Shares	3,848	4,467	2,919	1,989
Shareholder's Equity	13,976	14,909	7,725	6,517
Total Capital	**17,824**	**19,376**	**10,644**	**8,506**
Goodwill	(5,969)	(6,178)	(2,203)	(230)
Intangibles	(1,507)	(1,296)	(79)	—
Total Tangible Equity	6,500	7,435	5,443	6,287
Total Tangible Capital	10,348	11,902	8,362	8,276
Capitalization Ratios:				
Total Debt, Hybrids, and Preferred Shares / Total Capital	***22%***	***23%***	***27%***	***23%***
Total Debt, Hybrids, and Preferred Shares / Total Tangible Capital	***37%***	***38%***	***35%***	***24%***
Coverage Ratio:				
EBIT / Interest Expense + Dividends on Preferred Securities	6.5	4.6	5.9	6.3

On first glance, it appears that debt and equity rose in proportion to one another from 2000-2003. Indeed, total debt to total capital at year end 2000 and 2003 were roughly equivalent. Much of the growth in equity, however, was in the form of goodwill and intangibles — assets of little utility to creditors in a stress scenario. Looking at the ratio of total debt to total tangible capital, we observe that it has risen dramatically from 2000 to 2003. In Moody's view, risk to creditors is higher in 2003 than 2000.

To arrive at a Moody's measure of financial leverage (a rough proxy for risk), we take a series of conservative haircuts on Sun Life's goodwill and intangibles. When we do so, we arrive at a figure in excess of 28% -- above our comfort zone for Aa2 insurance companies. To date, the company's rating has withstood negative rating pressure associated with higher financial leverage because of the strength and diversity of Sun Life's earnings. Sun Life's coverage ratio, based on reported shareholder net income after the charge for MFS, though low for a Aa2 company, is improving and is evidence of the benefits Sun Life's derives from its acquisition-enhanced earnings base. Management's stated intention to bring this ratio down to the mid-20s is an additional bulwark for Sun Life's Aa2 rating.

Of concern, however, is the fact that management endeavored to return a significant amount of capital to shareholders in 2003. Sun Life bought back approximately C$527 million in common shares in 2003 and increased dividends by 50% (from C$0.14 per share in 4Q02 to C$0.21 in 1Q04). At C$646 million, the total incremental capital returned (i.e., share buybacks plus incremental dividends) accounted for 49% of Sun Life's 2003 net income. Going forward, we expect management to make reducing financial leverage a higher priority than returning capital to shareholders until financial leverage is reduced to a level consistent with Sun Life's Aa2 peers (i.e., mid-20s). Encouragingly, Sun Life bought back C$165 million in debt in 2003.

From a Canadian regulatory risk-based capital point of view, the three acquisitions also impacted Sun Life's regulatory capital ratio, called the Minimum Continuing Capital and Surplus Ratio, or MCCSR. Sun Life's MCCSR rose to 238% at year-end 2003, up from 222% in 2002, and 184% in 2001. While 238% is healthy, we note that approximately 54 basis points consisted of subordinated debt, with 24 more basis points for hybrid securities (i.e., Sun Life ExchangEable Capital Securities, or SLEECs), which we consider very debt-like. In Moody's view, these debt and debt-like components weaken Sun Life's regulatory capital base .

REPUTATION RISK AT MFS

In 2003, equity markets delivered positive returns for the first time since 2000. This trend impacted MFS' operating earnings positively in the latter half of 2003. On a year-over-year basis, third quarter and fourth quarter 2003 operating earnings were up 25% and 63%, respectively. Despite improving operating results in the second half of the year, in Moody's view 2003 was a difficult year for MFS. The company came under intense regulatory scrutiny and was ultimately fined for the following two charges:

1. That the company permitted certain customers to engage in improper trading activity, market timing, despite prospectus language that suggested such behavior was not allowed
2. That the company failed to adequately disclose to MFS shareholders the specifics of "shelf-space" payments to brokerages and the conflicts created by these arrangements

To resolve the first charge (without admitting or denying wrongdoing), MFS agreed to pay US$175 million in restitution to investors and US$50 million in fines. In addition, the company agreed to cut its fund management fees by US$125 million over the next five years. To resolve the second charge (again, without admitting or denying wrongdoing), MFS agreed to pay a penalty of US$50 million which is to be distributed to its MFS fund shareholders — this penalty hit first quarter 2004 results. As a result of the market timing fines, a C$168 million operating profit in 2003 was transformed into an after-tax net loss of C$43 million.

Other negative fallout ensued. There were reports of both institutional and individual investors pulling assets out of MFS funds, although at a rate lower than that experienced by other fund companies caught in similar circumstances. In addition, the top two operating executives who led the company through an impressive period of growth were forced to leave. For their roles in the misconduct, the U.S. Securities and Exchange Commission prohibited both the former CEO and the former President from serving as an officer or director of any registered investment company for three years. MFS subsequently announced that the executives would not return to the firm.

Encouragingly, Sun Life management moved forcefully to repair MFS' reputation, taking the following notable actions in the first quarter of 2004:

- Appointed Robert Pozen, a former SEC lawyer and past head of Fidelity Investment's mutual fund unit, as Chairman of the Board. Mr. Pozen is a respected industry veteran noted for instituting tighter controls at Fidelity. Note, Robert Manning, formerly Chief Investment Officer of MFS is now CEO
- Eliminated the use of "soft dollars"[1] to promote mutual fund sales, and indicated that MFS would use its own cash, rather than its funds' shareholders', to promote fund sales
- Appointed a new General Counsel and created the position of Regulatory Officer to oversee governance and compliance[2]
- Announced that Sun Life's CEO and COO waived their 2003 bonuses in response to MFS' regulatory problems

While Moody's expects the negative impact of these events to continue into 2004, we believe it to be manageable. Furthermore, we expect Sun Life's rating to withstand any more negative pressure emanating from this subsidiary. Sun Life has a diverse earnings base, in terms of both product and geography, which serves as a formidable defense for creditor interests. Furthermore, in a good year, MFS would make up approximately 15% of Sun Life's revenue and 20% of net income. Therefore, we do not anticipate that any further deterioration in the MFS franchise will materially impact Sun Life's rating.

CREDIT RISKS FROM WEALTH MANAGEMENT EXPOSURE

Moody's has expressed concern about a business mix that has a sizeable weighting towards "wealth management" products, which we define as investment management (primarily MFS) and individual and group annuities in Canada and the U.S. Because earnings from these businesses are tied to equity markets and interest rates, they are inherently more volatile than protection businesses (i.e., life insurance) and, therefore, are of lower quality from a creditor perspective. Annuities also expose the company to risks beyond earnings volatility as we will discuss shortly.

Encouragingly, the mix of wealth management to protection products shifted towards protection as a result of including Clarica's protection-centric businesses in Sun Life's financials for the full year 2003. As shown in Exhibit 4, the protection / wealth management shift was 57–40% in 2003, versus 45–67% in 2002. Even when correcting for the extraordinary penalty levied on MFS (see discussion above), the mix is still an improved 49–48%. We view this as a positive development for creditors because Sun Life's earnings stream is more stable and predictable than it was pre-Clarica.

1. *Soft dollar payments are arrangements where an investment adviser (i.e., mutual fund company) directs the execution of securities transactions to broker-dealers at higher than the transaction price in return for products and services beyond trade execution (e.g., research). These payments could also be interpreted as inducements for preferable shelf space for a mutual fund company's products.*
2. *MFS' move to enhance compliance may have been influenced partly by the SEC. Its settlement with the regulator also mandated that MFS retain the services of an Independent Compliance Consultant and adopt all recommendations made by the consultant. In our view, however, that MFS made permanent a compliance role (i.e., the Regulatory Officer) is a positive rating factor*

Exhibit 4 — Reported Shareholders' Net Income from Principal Product								
	Net Income from Continuing Operations				**Percent of Total**			
C$ Millions	**2003**	**2002**	**2001**	**2000**	**2003**	**2002**	**2001**	**2000**
Wealth Management	521	668	513	469	*40%*	*67%*	58%	59%
Protection	747	453	407	320	*57%*	*45%*	46%	40%
Corporate and Other	41	-123	-38	3	3%	-12%	-4%	0%
Total Company	**1,309**	**998**	**882**	**792**	**100%**	**100%**	**100%**	**100%**

The relative level, however, remains a rating concern — particularly since approximately 40% of Sun Life's earnings come from its annuity business. We believe Sun Life does bear some risks worthy of creditor attention in its fixed and variable annuities portfolios.

Acquired as part of the Keyport acquisition, the company's fixed annuities product line in the U.S. is a highly competitive, low margin business that exposes Sun Life to interest-rate and disintermediation risk. Interest rate risk is significant on older blocks of business that were sold during periods of higher interest rates and, therefore, crediting rates. Risk grows during low interest rate eras (e.g., 2002-2003) as lower investment yields cause spread compression. Fixed annuities sold in eras of lower interest rates become markedly less attractive to investors when rates rise, causing disintermediation risk. This could lead to surrenders on fixed contracts — contracts potentially backed by bonds purchased at higher prices when interest rates were low. Of Sun Life's C$109 billion in general fund assets under management, we estimate that C$54 billion is made up of non-MFS wealth management products (e.g., fixed annuities).

Sun Life's equity-based annuity products — variable annuities (VAs) in the U.S. and segregated funds in Canada — expose the company to equity market and "event" risk (i.e., low frequency, high severity events such as a sharp market downturn). Because fee revenue is a factor of broader market indices, it will drop when markets drop and rise when markets rise. Sun Life bears market risk with equity-based annuity products because its revenues and earnings will rise and fall with the same or greater volatility as stock markets.

Guarantees (such as guaranteed minimum death benefits and living benefits) expose Sun Life to event risk. With these guarantees, Sun Life is essentially writing a put option (on the S&P 500 for example) for its variable annuity customers. In 2002, Sun Life's net amount at risk on such guarantees was C$8.6 billion. In 2003, it dropped to C$4.4 billion.

Encouragingly, Sun Life employs increasingly sophisticated strategies to manage the aforementioned risks. Furthermore, in Moody's view, these strategies are responsible and proportionate to the risks that Sun Life bears. Surrender charges in the U.S. and market value adjustments protect Sun Life somewhat from adverse customer behavior driving up disintermediation risk associated with its fixed annuity business. Hedging can help to mitigate event risk and interest rate risk. Indeed, in late 2002, Sun Life established a long-term equity market hedge. This hedge helped stem statutory losses in the company's U.S. subsidiaries that year while reducing statutory gains in 2003. Furthermore, the company upgraded its hedging strategy by implementing a dynamic hedging system in early 2004. It complements this system with a testing regime built around stochastic modeling.

No risk management strategy is perfect, however, and Sun Life's hedge program has yet to be tested through long-term economic and equity market cycles. Surrender charges and market value adjustments do not eliminate the potential for sudden, adverse shifts in customer behavior. Hedging is costly. It can also be difficult to maintain an appropriate hedge position because the portfolio it protects can be subject to enhanced volatility in periods of high market stress.

ASSET QUALITY: REGAINING HISTORIC STRENGTH

Prior to its recent spate of acquisitions, Sun Life maintained excellent asset quality, with below investment-grade bonds typically making up 1-2% of the total bond portfolio. Two unrelated events, however, combined to weaken marginally Sun Life's asset quality over the past two years.

First the acquisition of Keyport in 2001 increased the overall group's investment risk profile. Keyport had proportionally higher levels of below investment grade bonds than Sun Life. Second, the credit environment degraded rapidly in 2001 and 2002, increasing bond defaults. As a result, a higher proportion of below investment-grade bonds at Sun Life led to higher asset quality problems in 2002 and 2003 (see Exhibit 5). Fortunately, Sun Life's asset quality indicators began to improve in 2003 as the credit cycle turned positive. In 2003, gross impaired bonds as a percent of total bonds declined from 2003, as did gross impaired assets to total invested assets. Below investment grade bonds remained below 4%; we would view a return to the 1-2% levels of Sun Life prior to the Keyport acquisition as a rating positive.

Exhibit 5 — Sun Life Asset Quality Indicators, 2000-2003				
Sun Life Financial, Inc. Asset Quality Indicators (CGAAP)	**2003**	**2002**	**2001**	**2000**
Below Investment Grade Bonds to Total Bonds	3.83%	3.78%	5.52%	1.04%
Gross Impaired Bonds to Total Bonds	0.87%	1.11%	0.44%	0.50%
Gross Impaired Assets to Total Invested Assets	0.72%	0.86%	0.35%	0.43%
Net Impaired Assets to Total Invested Assets	0.34%	0.41%	0.18%	0.09%

On a consolidated Canadian GAAP basis, total gross impaired assets, including mortgages and other assets, amounted to C$699 million at year end 2003, although this was offset 52% by C$366 million of general and specific allowances. This compares favorably with gross impaired assets of C$952 million offset by C$495 million of allowances at year-end 2002 — a similar coverage ratio, but much higher level of gross and net impairments. Asset quality problems caused Sun Life to take consolidated investment provisions of approximately C$113 million in 2003 — down 69% from 2002 investment provisions.

ADEQUATE LIQUIDITY

We believe Sun Life's available sources of liquidity are adequate to meet anticipated and unanticipated policyholder and debt obligations.

The company's general fund liquidity needs come from Sun Life's C$44 billion of annuity liabilities (C$33 billion in individual and C$11 billion in group). In Canada, market value adjustments mitigate against surrenders on the individual annuities that account for C$11 billion in general fund liabilities. In the United States, surrender charges on most individual annuity contracts provide good protection for Sun Life US against excessive withdrawals (US-based individual annuities account for C$19 billion of general fund liabilities).

Interest payments on debt and hybrid securities issued by Sun Life and its subsidiaries constitute an additional source of liquidity needs. These interest payments totaled C$274 million in 2003 and should be at a roughly equivalent level in 2004.

Sun Life has approximately C$58 billion in liquid assets to cover these obligations. The assets are made up predominantly of investment-grade, publicly-traded bonds (government and corporate). The company also has close to C$5 billion in cash and short-term equivalents. We observe that the ratio of liquid assets to annuity liabilities has held steady at around 130% for the past two years, a level we view as adequate for large life insurers (please see Exhibit 6). Of note, on Moody's liquidity ratio — which is the ratio of liquid assets to surrenderable / liquid liabilities calculated using U.S. statutory data — Sun Life's U.S. operating company achieved 3.0 result in 2002. In general, a ratio of over two is indicative of an excellent liquidity profile.

Exhibit 6 — Sun Life Liquidity Indicators, 2000-2003			
Sun Life Financial, Inc. Liquidity (CGAAP, C$ millions)	**2003**	**2002**	**2001**
Annuity liabilities:			
Individual Annuities	33,428	35,862	21,935
Group Annuities	10,578	13,525	12,482
Total Annuities	**44,006**	**49,387**	**34,417**
Available liquid assets:			
Cash and Equivalent Investments	4,972	7,152	4,809
Stocks	3,473	4,221	4,882
Public Investment Grade Bonds	49,820	55,110	32,594
Total liquid assets	**58,265**	**66,483**	**42,285**
Liquid Assets to Annuity Liabilities	***132%***	***135%***	***123%***

Related Research

Industry Outlooks:

U.S. Life Insurance Industry Outlook, January 2004, (80468)

Canadian Life Insurance Industry Outlook, March 2003 (77630)

Special Comments:

Recent SEC and NYAG Investigations into Mutual Fund Improprieties Unlikely to Have Near-Term Rating Effect on US Financial Services Firms, February 2004 (81219)

Moody's Views on Current Conditions in the US Life Insurance Industry, December 2003 (80698)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Sun Life Assurance Company of Canada

(C $mil)	2002	2001	2000	1999	1998
Operating Statistics [1]					
Insurance revenues	15,927	9,146	8,908	7,822	7,383
Net investment income	6,099	4,100	3,775	4,120	4,073
Total revenues	25,429	16,667	16,149	14,672	13,623
Benefits paid	12,169	6,043	5,625	6,019	6,688
Reserve increases	4,241	1,661	1,868	1,004	473
Insurance benefits	16,411	7,703	7,493	7,024	7,161
General expense and comm.	5,348	4,180	3,890	3,480	3,619
Gain fr. ops. pre-tax & divs & experience rfds.	2,136	2,086	2,122	1,756	1,244
Policyholder dividends and experience rfds.	1,145	743	802	881	851
Income taxes	(37)	275	369	418	239
Net Income	861	921	808	165	54
Balance Sheet Statistics [1]					
Cash and invested assets	108,756	72,516	50,470	49,508	49,478
General account assets	118,087	80,134	55,651	54,751	54,149
Total assets	172,622	130,179	106,238	101,831	95,169
Policy reserves	90,827	61,462	36,777	35,930	36,415
Debt	2,333	1,042	1,117	1,382	1,022
Capital	11,101	7,753	6,741	6,318	6,526
Capitalization (%)	9.4	9.7	12.1	11.5	12.1
Segment Analysis					
As % policy reserves :					
Life Insurance : Individual	47.5	52.8	49.5	51.7	51.1
: Group	3.6	3.8	3.7	4.4	4.5
Annuities : Individual	24.0	15.7	17.0	16.7	17.2
: Group	15.9	16.0	17.5	15.0	15.3
: Settlement & Disabil. (Deductions)	0.0	0.0	0.0		
Accident & Sickness	9.1	11.7	12.4	12.2	11.9
As % of total premiums:					
Participating : Individual	24.2	26.2	29.5	36.1	32.8
: Group	3.6	7.0	7.6	7.4	7.3
Non-Participating : Individual	25.7	18.1	28.0	23.8	18.8
: Group	20.3	21.1	9.9	11.6	12.2
Accident & Sickness	26.2	27.6	24.9	21.1	28.9
Premium Profile					
Direct	8,879	5,135	5,172	5,502	4,986
Assumed	634	83	26	313	1,175
Total premium income	9,513	5,218	5,198	5,815	6,160
Ceded premiums	920	416	275	198	800
Net premium income	8,593	4,803	4,922	5,617	5,360
As % of total individual direct premiums:					
[2]Single premium (%)	27.6	26.0	22.4	21.0	22.0
[2]First year (%)	8.8	8.2	8.0	7.4	8.5
[2]Renewal (%)	63.6	65.7	69.6	71.7	69.6
[2]Avg. prem. / $1,000 in force	12.27	14.90	16.14	16.91	16.21
[2]Avg. prem. / $1,000 issued	9.60	13.66	13.08	12.89	13.17
[2]Avg. policy size in force	101,422	165,435	150,882	93,526	95,539
[2]Avg. policy size issued	262,081	549,594	331,167	160,258	164,879

Sun Life Assurance Company of Canada

(C $mil)	2002	2001	2000	1999	1998
Profitability					
As % of total revenues:					
Premiums	67.0	68.1	66.4	64.2	63.6
Investment Income	30.2	29.3	30.9	33.8	34.2
Benefits incurred	70.9	66.2	64.9	63.6	58.1
Policyholder Dividends and Experience Rating Refunds	7.2	6.0	6.8	10.1	10.2
Insurance general expenses	1,608	737	808	1,143	869
Investment general expenses	302	160	166	194	198
Total general expenses	1,910	897	974	1,337	1,067
Expense growth (%)	30.6	(7.9)	(27.2)	25.4	(4.2)
[2] Lapse ratio (%)	5.3	5.6	5.9	6.1	6.2
[2] Renewal premium persistency	158.5	83.7	70.9	93.4	96.7
ROA (%)	0.8	1.4	1.5	0.3	0.1
ROE (%)	8.0	12.9	12.4	2.6	0.9
Gain (loss) from operations ($mil):					
Participating : Individual	(5)	-1	104	104	625
: Group	(0)	0	40	29	43
Non-Participating : Individual	2	58	50	195	33
: Group	147	49	71	42	85
Accident & Sickness	(100)	52	15	65	(51)
Other	817	763	528	(100)	(681)
LIFE INSURANCE COMPANY ONLY					
Asset Composition					
As % cash and invested assets					
Bonds	48.3	44.0	48.1	45.6	45.3
Stocks	2.7	5.2	4.8	11.4	11.3
Mortgage loans	18.4	18.1	19.0	16.4	17.5
Real estate	3.8	4.4	4.9	5.5	5.8
Policy loans	2.8	2.7	2.7	2.9	3.0
Cash & short term investments	5.5	2.4	4.5	2.7	2.2
Other invested assets	5.0	4.0	4.5	5.6	4.2
Subtotal	86.4	80.8	88.6	90.2	89.3
Investments in subsidiaries	12.7	18.3	10.4	8.7	9.5
Accrued investment income	0.9	0.9	1.0	1.1	1.3
Total cash & invested assets	100.0	100.0	100.0	100.0	100.0
Investment Results					
As % mean assets					
Gross investment yield	7.62	7.80	7.75	9.30	9.67
Investment expense	0.55	0.56	0.52	0.57	0.62
Net investment yield	7.07	7.24	7.23	8.73	9.05
Contributed surplus	150	150	0	0	0
Unappropriated surplus	-	-	-	-	-
Share Capital	1,157.4	202	201.3	0.0	0.0
Total free surplus	-	-	-	-	-
Appropriated surplus	-	-	-	-	-
Total capital	11,101.2	7,753	6,741.0	6,318.4	6,525.8
Capitalization (%)	9.4	9.7	12.1	11.5	12.1
Adjusted capitalization (%)	9.7	10.0	12.4	11.8	12.3
Debt / capital (%)	21.0	13.4	16.6	21.9	15.7
[3]Surplus relief (%)	0.2	0.2	0.1	0.2	0.4
[3]Reins recoverable / capital (%)	6.1	2.4	4.4	2.6	2.3
[3]Inv. in affiliates / capital (%)	77.0	87.2	51.5	55.6	55.9
Real Estate/ capital (%)	27.9	29.9	34.5	38.0	37.4
Mortgages/ capital (%)	140.0	111.2	151.0	181.6	183.6

[1] Consolidated Data
[2] Individual life only.
[3] Combined Consolidated and Non-consolidated Data

Sun Life Assurance Company of Canada (U.S.)

BUSINESS PROFILE	12/31/03	12/31/02 [1]	12/31/01	12/31/00	12/31/99
Segment Analysis					
As % policy reserves & liabilities:					
Individual life	2.2	4.9	6.0	7.2	8.2
Individual health	0.0	0.0	0.0	0.0	0.0
Individual annuities	71.8	4.7	6.3	8.4	11.3
Group life	0.0	-0.1	-0.1	-0.1	0.0
Group health	0.0	0.0	0.0	0.0	0.0
Group pension	8.6	32.5	32.9	84.5	80.5
Deposit-type contracts	17.4	58.0	55.0	—	—
Other	0.0	0.0	0.0	0.0	0.0
As % of total net premiums & deposits:					
Individual life	2.8	5.0	1.8	1.8	0.6
Individual health	0.0	0.0	0.0	0.0	0.0
Individual annuities	50.1	1.0	1.0	0.9	29.6
Group life	3.6	28.6	9.4	15.4	0.0
Group health	0.0	0.0	0.0	0.0	0.0
Group pension	42.0	51.6	74.1	81.9	69.8
Deposit-type contracts	1.5	13.9	13.6	—	—
Other	0.0	0.0	0.0	0.0	0.0
Premium Profile ($mil)					
Direct	3,131	2,562	3,108	996	75
Assumed	5	1	0	0	0
Deposit-type funds	45	405	481	4,473	2,598
Total prems & deposit funds	3,182	2,967	3,589	5,468	2,673
Ceded premium	215	52	60	17	6
Net prems & deposit funds	2,967	2,916	3,529	5,452	2,668
Ceded Premiums/Total Premiums (%)	6.8	2.0	1.9	1.7	7.4
Reserve Profile					
Financial Modco Reinsurance Ratio	4.3	0.0	0.0	—	—
Deposit-type contracts as a % General Account Reserves	17.4	57.7	54.4	—	—
Ordinary Life Statistics					
As % of ordinary life direct premiums:					
First year (%)	38.1	32.9	17.2	32.3	2.8
Paid-up additions (%)	0.0	0.0	0.0	0.0	0.0
Single premium (%)	17.6	39.6	47.5	51.1	69.7
Renewal (%)	44.3	27.5	35.3	16.6	27.6
Lapse ratio (%)	4.0	6.6	3.9	3.6	4.4
Renewal premium persistency (%)	43.7	117.6	48.1	248.8	94.3
Avg prem / $1,000 in-force (%)	13.01	40.23	20.55	37.44	14.99
Avg prem / $1,000 issued (%)	39.91	69.90	62.32	65.17	108.26
Avg policy size in-force	227,128	265,085	253,693	212,814	115,513
Avg policy size issued	831,761	755,417	780,743	2,431,763	828,803
Participating in-force/Total in-force (%)	8.4	0.0	0.0	0.0	0.0
Participating issued/Total issued (%)	0.0	0.0	0.0	0.0	0.0
Individual Annuity Statistics					
Average Deferred Annuity Size	42,293	23,037	22,102	—	—
Persistency Ratio	82.6	88.8	84.4	91.3	91.1
Accident & Health Statistics					
Loss ratio - Individual	—	—	—	—	—
Expense Ratio - Individual	—	—	—	—	—
Loss Ratio - Group	—	—	—	—	—
Expense Ratio - Group	—	—	—	—	—

Sun Life Assurance Company of Canada (U.S.)

INVESTMENT PROFILE	12/31/03	12/31/02 [1]	12/31/01	12/31/00	12/31/99
Asset Composition					
As % of cash and invested assets:					
Bonds	83.8	64.1	66.1	67.8	52.0
Affiliated common stock	2.0	4.4	5.3	5.3	3.2
Unaffiliated common stock	0.0	0.0	0.0	0.0	0.0
Preferred stock	0.0	0.0	0.0	0.0	0.0
Commercial mortgage loans	3.6	11.1	16.0	15.7	22.5
Other mortgage loans	0.0	-0.1	-0.1	0.0	0.0
Real estate	0.5	2.1	2.8	3.0	4.0
Policy loans	4.0	1.0	1.5	1.6	1.7
Cash & short term investments	1.6	7.2	3.4	3.6	13.5
Other invested assets	4.5	10.1	5.0	3.1	3.1
Total cash & invested assets	100.0	100.0	100.0	100.0	100.0
Bond Quality					
Private Placements as % of Total Bonds	21.4	30.6	53.0	48.3	45.4
Private Below Investment Grade Bonds as % of Total Bonds [2]	3.1	4.3	3.5	2.0	3.5
Public Below Investment Grade Bonds as % of Total Bonds [2]	4.3	5.6	3.4	2.0	1.3
Total Below Investment Grade Bonds as % of Total Bonds [2]	7.4	9.8	6.9	4.0	4.9
Class 3 Bonds as % of Total Below Investment Grade Bonds [2]	51.1	68.4	86.5	88.1	78.7
Class 4 Bonds as % of Total Below Investment Grade Bonds [2]	28.3	14.4	9.9	8.1	12.0
Classes 5&6 Bonds as % of Total Below Investment Grade Bonds [2]	20.6	17.3	3.6	3.8	9.3
Total Below Investment Grade Bonds as % of Invested Assets [2]	6.2	7.0	4.8	2.8	3.2
Residential Mtg Backed Securities as % of Invested Assets	16.6	5.2	4.1	4.3	6.6
Commercial MBS & ABS as % of Invested Assets	11.5	0.7	1.1	1.5	1.9
Mortgage & Real Estate Quality					
Mortgages + Real Estate as % of Invested Assets	4.1	13.1	18.7	18.7	26.5
Commercial Mortgages + Real Estate as % of Invested Assets	4.1	13.2	18.8	18.7	26.5
Underperforming Mtgs + Fclsd RE as % of Total Mtgs + Fclsd RE [3]	1.5	2.3	2.7	6.5	5.7
Underperforming Assets					
Bonds in or near default as % of Invested Assets	0.4	0.8	0.1	0.0	0.3
Underperforming Mortgages + Foreclosed RE as % of Invested Assets [3]	0.1	0.3	0.4	1.1	1.3
Mortgage & RE Reserves as % of Underperforming Mtgs + Fclsd RE [3]	757.0	227.8	221.8	96.7	89.7
Total Underperforming Assets as % of Invested Assets [4]	0.5	1.1	0.5	1.1	1.6
Total Investment Reserves as % of Total Underperforming Assets [4]	229.1	125.5	345.0	157.3	115.1
AVR Funding %	77.9	54.9	76.4	78.1	100.0
Investment Results					
As % mean assets:					
Gross investment yield	7.71	4.94	6.98	8.45	8.65
Investment expense	0.86	1.61	1.90	2.24	2.15
Net investment yield	6.85	3.32	5.08	6.21	6.50
Realized capital gains	0.32	1.68	0.45	-0.15	0.98
Less - Transfer of gains(losses) to IMR	0.26	0.37	0.34	0.03	0.19
Plus - Amortization of IMR	0.25	0.19	0.12	0.12	0.14
Unrealized capital gains	-0.06	1.05	-1.13	-0.14	-1.41
Total investment return	7.11	5.88	4.18	6.00	6.02
Liquidity					
Liquid Assets as % Surrenderable Annuity Liabs	87.4	109.0	55.6	42.2	32.9
Surrenderable Annuity Liabs as % Total Reserves	81.2	49.5	65.6	108.0	144.4

Sun Life Assurance Company of Canada (U.S.)

FINANCIAL PROFILE	12/31/03	12/31/02	[1] 12/31/01	12/31/00	12/31/99
Profitability ($mil)					
Net gain bef PH div & tax/avg assets	0.57	-1.22	-1.05	-0.07	0.51
Net gain bef PH div & tax/avg capital	13.65	-31.72	-24.90	-1.44	10.05
Operating return on avg assets (%)	0.75	-0.86	-0.65	0.02	0.38
Operating return on avg capital (%)	17.81	-22.49	-15.54	0.45	7.45
Operating return on required capital (%)	18.58	-47.48	-46.04	1.61	33.45
Operating return on revenues (%)	5.33	-5.98	-4.00	0.07	2.31
Net investment income	664	111	139	150	167
Required interest	666	202	130	133	129
Excess (deficiency)	-1	-91	8	17	38
Interest margin (%)	-0.2	-44.8	6.3	13.1	29.1
Expected mortality cost [5]	7	6	6	5	6
Actual mortality cost [5]	9	5	5	2	3
Excess (deficiency) [5]	-1	1	2	4	2
Mortality margin (%) [5]	-20.0	11.7	25.7	70.3	41.1
Insurance general expenses	138	84	87	87	75
Investment general expenses	15	6	6	8	9
Total general expenses	153	90	93	95	84
Expense growth (%)	69.9	-3.3	-1.5	12.9	23.4
Commissions/Premiums & Deposit-type funds	7.7	3.5	4.3	4.1	5.8
Tot general expenses/Premiums & Deposit-type funds	5.1	3.1	2.6	1.7	3.1
Tot expenses/Premiums & Deposit-type funds	12.83	6.54	6.90	5.87	8.95
Total general expenses/Avg assets	0.54	0.44	0.43	0.45	0.45
Insurance General Expenses as a % of Premiums:					
Individual life	16.3	7.9	17.5	10.2	66.5
Individual health	—	—	—	—	—
Individual annuities	4.4	40.9	22.1	19.5	1.1
Group life	9.2	0.9	1.4	0.1	—
Group health	—	—	—	—	—
Group pension	3.8	3.6	2.4	1.5	3.0
Other	—	—	—	—	—
Gain (loss) from operations ($mil):					
Individual life	2	-10	-4	-9	-4
Individual health	0	0	0	0	0
Individual annuities	142	1	17	10	-5
Group life	-5	20	1	-16	0
Group health	0	0	0	0	0
Group pension	73	-187	-154	19	78
Other	0	0	0	0	0
Derivative Exposure					
Net Inv Inc from Derivatives as % of Total Net Investment Income	-34.31	-45.38	-13.92	0.98	-0.04
Capital Gains from Derivatives as % of Total Capital Gains	-3392.35	130.74	208.26	30.31	-25.91
Net Real. Cap. Gains from Derivatives as % of Total Capital Gains	-3128.73	107.11	-37.11	30.31	-25.91
Net Unreal. Cap. Gains from Derivatives as % of Total Capital Gains	-263.62	23.62	245.37	0.00	0.00
Capitalization (%)					
Surplus excl. surpl notes & capital notes($mil)	892	122	205	375	321
Surplus notes & capital notes($mil)	565	565	565	565	565
Surplus ($mil)	1,457	687	770	940	886
Asset valuation reserve ($mil)	190	52	51	44	44
50% of dividend reserve liab.($mil)	0	0	0	0	0
Capital ($mil)	1,647	738	820	985	930
Capital/Assets	9.8	18.6	27.1	37.6	39.1
Capital/(Assets - Pol loan)	10.2	18.8	27.4	38.2	39.8
Growth of statutory surplus	112.2	-10.8	-18.2	6.1	-2.6
Cum effect of change in accting prin/Beg.Capital	0.0	0.0	2.6	—	—
Moody's Risk adjusted capital ratio	144.1	200.0	269.3	369.2	443.0
NAIC Risk based capital ratio	312.9	438.8	621.1	586.4	703.8
Below inv grade bonds/Capital [2]	61.8	36.5	16.9	7.5	8.0
Commercial Mtgs + RE/Capital	41.0	69.1	67.2	48.9	67.0
Mortgages + RE/Capital	41.1	68.8	66.8	48.9	67.0
Underperforming Mtgs+Fclsd RE/Capital [3]	0.6	1.3	1.5	2.8	3.4
Total Underperforming Assets/Capital [4]	5.0	5.6	1.8	2.9	4.1
Risk Assets/Capital	118.8	105.1	94.1	63.9	82.4
Residential MBS/Capital	165.8	27.4	14.5	11.2	16.7
Commercial MBS & ABS/Capital	115.1	3.5	3.8	3.9	4.8
Debt/Capital	27.9	10.8	0.0	0.0	0.0
Surplus Notes+Capital notes/Capital	34.3	76.5	68.9	57.4	60.7
Reins recoverable/Capital	123.9	18.7	4.5	3.1	5.7
Net Credit for Ceded Ins/Surplus	139.4	—	—	—	—
Affiliated common stock/Capital	19.8	23.1	18.8	13.8	8.1
Total Affiliated Inv/Capital	24.6	23.1	31.0	24.0	8.1

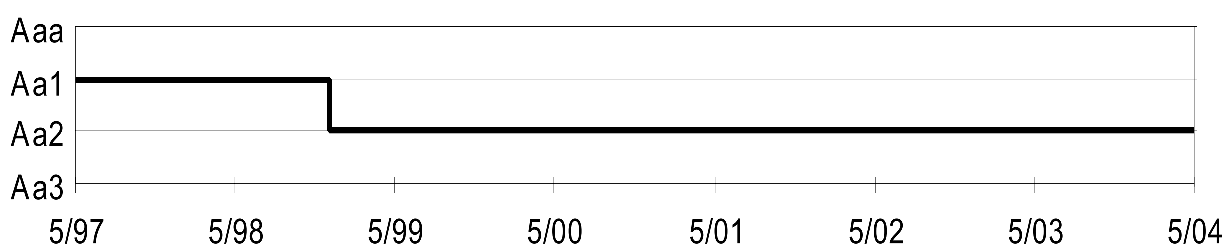
[1] Due to statutory codification changes in 2001, trend analysis with prior years may be difficult.
[2] Below investment grade bonds include bonds in NAIC classes 3,4,5 & 6.
[3] Underperforming mortgages refer to the sum of mortgages with interest 3 months overdue, mortgages in process of foreclosure, and mortgage loans with restructured terms. Foreclosed real estate represents properties acquired in satisfaction of debt.
[4] Underperforming assets are bonds in or near default + underperforming mortgages + foreclosed real estate.
[5] Individual Life only.

Description	Coupon (%)	Currency	Face Amount (mil)	Maturity	Moody's Rating
Sun Life Assurance Company of Canada					
Sub. Fixed/Flt. Rt. Canadian Debentures	6.150	CAD	800	2022	A1
Insurance Financial Strength Rating	—	Domestic	—	—	Aa2
Clarica Life Insurance Company					
Sub. Canadian Debentures [1]	5.800	CAD	250	2013	A1
Sub. Fixed/Flt. Rt. Canadian Debentures [1]	6.650	CAD	300	2015	A1
Sub. Canadian Debentures [1]	6.300	CAD	150	2028	A1
Sun Life Capital Trust					
6.865% Sun Life ExchangEable Cap. Secs. (SLEECS)	—	CAD	950	—	A2
7.093% Perp Sun Life ExchngEable Cap Secs (SLEECS)	—	CAD	200	—	A2
Sun Life of Canada (US) Holding Inc.					
Non-Cum. Redeem. Pfd. Stk.	—	USD	600	—	A3
Sun Canada Financial Co.					
Gtd. Sub. Notes [1]	6.625	USD	150	2007	A1
Gtd. Sub. Notes [1]	7.250	USD	150	2015	A1
Sun Life Assurance Company of Canada (U.S.)					
Insurance Financial Strength Rating	—	—	—	—	Aa2
Sun Life of Canada Funding, LLC					
Euro Medium Term Notes [1]	3.530	SGD	80	2007	NR
Flt Rt Euro Medium Term Notes [1]	—	USD	300	2007	Aa2
Euro Medium Term Notes [1]	4.150	SGD	100	2009	Aa2
Euro Debt Issuance Program [1]	—	USD	2,000	—	Aa2
Sun Life of Canada (U.S.) Capital Trust I					
8.526% Gtd. Cum. Perp. Pfd. Cap. Secs. [1]	—	USD	600	—	A1

[1] Backed rating.

Rating History

Insurance Financial Strength



To order reprints of this report (100 copies minimum), please call 1.212.553.1658.
Report Number: 87209

Author	Senior Associate	Production Specialist
Peter Routledge	*Marc Abusch*	*Yung Chu*