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SUN LIFE ASSURANCE COMPANY Q4/2001 RESULTS

Operator: Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the Sun Life Financial fourth quarter results conference call. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question and answer session. If anyone has any difficulties hearing the conference, please press *0 for operator assistance at any time. I would like to advise everyone that this conference call is being recorded and will now turn the conference over to Mr. Tom Rice, Vice-President of Investor Relations. Please go ahead, sir.

Tom Rice: Thank you, Operator, and good afternoon, everyone. Welcome to Sun Life Financial's fourth quarter conference call. Leading this afternoon's discussion will be Don Stewart, Chairman, Chief Executive Officer; Jim Prieur, President, Chief Operating Officer; Paul Derksen, Executive Vice-President, Chief Financial Officer. Also joining us this afternoon is Jim McNulty. Jim runs Sun Life's US Annuity and Insurance Operations and will be making a presentation on the Keyport/IFMG integration process.

If you will turn to slide two, you will see a cautionary narrative regarding forward looking statements. These statements by their very nature involve uncertainty and

maybe rendered incorrect by subsequent events. Slide three is a new slide. This is included as we intend to issue stocks as part of the planned combination with Clarica. Slide three notes that today's conference call is not a part of the related solicitation process. With that, it's my pleasure to introduce Don Stewart.

Don Stewart: Thank you, Tom, and good afternoon to everyone here and to those of you on the telephone. It's my great pleasure to report that Sun Life Financial has delivered a very solid fourth quarter. The excellent results we have achieved reflect the impact of a number of complex and interrelated actions. During the quarter, we closed the Keyport/IFMG acquisition as well as closing both a debt issue and an equity offering to finance it. We sold two business units in the U.K., retired some older debt which was no longer fully contributing to regulatory capital, and negotiated a partnership with Clarica Life Insurance Company. The radical restructuring of our U.K. business announced in February 2001 led to that business showing much improved earnings power as the year came to a close. As we proceed further with our U.K. restructuring, we recently announced the outsourcing of the back office functions of the retail portion of our business which will bring additional certainty to our operating costs while preserving strategic flexibility. In aggregate, the sequence of actions has made us a very different company at the end of 2001 than we were at the beginning of the year. Today's Sun Life Financial has a more tightly focused business profile and a significantly reduced cost base. Before I turn to the fourth quarter, I'd like to summarize progress on our partnership with Clarica. As you know, we've begun mailing the proxy circular for the March 6th meeting and have

been working very hard with our counterparts at Clarica to develop an integration plan. We've retained a leading consulting firm to support our efforts and we continue to be very enthusiastic about the prospects for the combined operation.

I reciprocate and support the comments made by Bob Astley at the Clarica fourth quarter conference call last week. Turning to Sun Life Financial's fourth quarter, the quarter began with equity markets in a depressed state following the tragic events of September 11th. Although the market staged a modest rally as the quarter progressed and ended on a stronger note, the market averages for the fourth quarter were still well below the averages for the third quarter. Early in the quarter we completed both the Equity and SLEECs financing to support the Keyport/IFMG acquisition, which closed on October 31. Keyport earned 27 million CDN for the two months we owned it or 12 million after financing costs and recall that financing was in place before we had taken on the income generating assets. This added three cents per share to the quarter's results, putting us well along towards our commitment of adding 15 to 20 cents in 2002 earnings from this acquisition. Keyport's additions to our product set especially in terms of fixed annuities turned out to be timely relative to changing market demands as consumers responded to the increasing volatility in the equity markets with an enlarged appetite for products with fixed guarantees.

To explore this topic further, I've asked Jim McNulty, Executive Vice-President, US Operations, to join us this afternoon to provide a detailed look at the progress his team has made relative to key integration milestones.

As a result of all these and other actions, we achieved a record year with earnings of 882 million dollars Canadian, or \$2.08 per share. Given the multiple challenges encountered by the revenue side of our wealth management business, we view this as a very solid performance. A large part of the credit for turning in a solid quarter, despite revenue challenges, has to go to individuals across the company who helped us reduce our cost base. Fortunately, we got an early start to our efficiency efforts, many of which were well under way in pursuit of our IPO commitment to reduce costs by 160 million CDN by 2002. I'm proud to report that we achieved that target a full year ahead of schedule. This means that we are well positioned to participate in a market rebound as our break-even points have been lowered significantly. Importantly, these efficiencies have not compromised our ability to build market share. An outstanding example of this marketing strength is MFS where we have achieved continuing strong net fund inflows and where we again ranked near the top of the non-proprietary channel. I'll now turn the floor over to Paul Derksen, who will review the quarter's results. Paul?

Paul Derksen: Thank you, Don.

I will start with page five, and that chart shows the earnings relative to previous quarters. We've also shown the average of the S&P 500 index for the various quarters. Earnings were up 243 million dollars for the quarter, up 15 percent from the 211 million dollars a year ago. This includes a contribution by Keyport of 12 million dollars. We also had some non-recurring items amounting to 10 million for a total quarterly earnings of 253 million.

The increase in earnings is despite very difficult equity markets. While at the end of the year, markets were up from where they were at the end of the third quarter, the daily average of the S&P 500 index was down three percent for the quarter from Q3 and down 18 percent from a year ago. The very strong North American and U.K. protection earnings offset weak wealth management earnings in MFS and variable annuities as a result of these markets. Just in terms of some detail, I might add that when you go into the detail, you will note that our tax rate for the year is actually down a fair bit from last year. It was 30 percent in 2000 and 24 percent in 2001. This is almost entirely due to the PAR block. The PAR block, as you know, does not affect our shareholder earnings. The PAR block tax rate was reduced from 59 percent in 2000 to 31 percent in 2001. In terms of shareholder income, the rate changed somewhat from 25 to 23 percent and it's very much in a sustainable range. But I thought I'd add this detail here for those of you who go through that later on this afternoon. Turning then to the next page, this chart identifies the net non-recurring items. The proceeds of the sale of the U.K. bank and SLC Asset Management were 386 million dollars and the net after tax gain amounts to 125 million. We incurred some charges associated with the U.K. restructuring and they amounted to 88 million. We also redeemed sub-debts which funded U.K. Operations and which was amortizing from a regulatory perspective. The mark-to-market on this debt along with the premium is about 30 million dollars.

Also during the quarter, we adopted the new Canadian actuarial standards. This had the effect of reducing our retained earnings by 207 million and increased earnings by

three million. This too we have shown in this category. So in total, these items amount to ten million dollars or two cents per share. In terms of the earnings per share, it is all indicated in the following charts, chart number seven, where you see both earnings per share and ROE. Your earnings per share in the third quarter were 51 cents. In the fourth quarter, organic earnings growth increased earnings per share by three cents. Keyport added another three cents and non-recurring items added two cents for a total of 59 cents a share. Return on equity was 13.4 per cent compared to 13.2 percent a year ago. The following page shows how we had excellent top line growth this quarter. Premium and seg fund deposits were up 1.3 billion dollars from Q3, although they are still below last year because of market conditions. Keyport contributed 815 million, of which 96 million were seg fund deposits and 716 million dollars in premiums. This quarter, we had no medium term note revenue which added 100 million to Q3 and 114 million to Q4 of 2000. The very strong top line growth is also reflected on the following page where you see our first year annualised premiums. Individual Life premiums were 202 million of which 111 million came from BOLI. Even if you exclude BOLI, in all quarters consistently the Individual Life sales were up significantly. So in Q4 of 01, the 202 that you see there, if you exclude BOLI, would translate into 91 million. In Q3, the 66 you see there, if you exclude BOLI, that would be 58 million. And in Q4 of 2000, the 122 million, excluding BOLI would be 71 million. So you can see that Q4, even excluding BOLI, was a very strong quarter.

We also had excellent top line growth in Group Life and Health in all geographies. Canada was slightly lower as it focused very much on profitable market share and is walking away from business which doesn't meet its profitability standards. And if you see later on in the package, Canada had excellent earnings as a result of that strategy. Turning then to the following page, assets under management, they increased by 53 billion dollars. To give you the breakdown of that, we started with 299 billion for the quarter at the end of Q3. Market growth and currency added 28. We had three billion dollars in sales. The U.K. dispositions reduced the assets under management by eight billion and Keyport added 30 billion to arrive at its 352 billion-dollar assets under management at the end of Q4. The details of this is provided further on the following page. On the following page, page number 11, on the right-hand side, you see how the market recover increased assets under management by 26 billion for the quarter. You can see the net sales of 3.3 billion. Redemptions were actually up slightly for the quarter at 22 percent compared to the high teens in the previous quarters. MFS on the following chart. You can see how MFS continues to do extremely well. It was ranked number three in the non-proprietary channel, which is the same ranking as last year at this time. It was number four in the overall industry up from number five a year ago. MFS is now the eighth largest mutual fund in the US compared to number nine a year ago. So MFS continues to improve its positioning and its market share as time goes on. Turning then to the following page, annuity sales. The timing of the acquisition of Keyport turned out to be very opportune as the market seems to be moving towards fixed annuities under these conditions.

Growth sales, as you can see on the chart, amounted to one billion dollars with Keyport contributing half of that, 200 million, in variable annuities and 300 million in fixed annuities. Single manager product sales fell from a billion one a year ago to 287 million this quarter. This is because of market conditions. As I mentioned, the S&P is down 18 percent, on average from a year ago. Very strong promotions we had a year ago when MFS had some very strong promotions in a single manager product, and a general preference for multi manager products. Redemptions, as you can see at the bottom of the chart, were 980 million, 440 of which came from Keyport, which is a more usual rate in a fixed annuity product and 540 million came from Sun and the 540 million is slightly higher but very much consistent with what you see in the previous quarters. Net Keyport contribution was 56 million dollars for the two months consistent with the business plan and the expectations. The chart that follows, number 14, shows all this translated into revenue. Revenue increased to 4.9 billion dollars with Keyport contributing one billion, the bulk of which was in annuities where Keyport contributed 716 million. The sale of the U.K. business increased the investment income by 150 million, and as I mentioned, we had no EMTN revenues this quarter. So if you exclude the impact of Keyport, the sales in the U.K. and the medium-term note revenue, every revenue line item is up in Q4 from Q3. If you compare these line items to a year ago, as you might expect because of market conditions, fee income and annuity premiums are actually down somewhat. So despite the difficult market positions, we had a good top line growth this quarter.

The next line then turns to operating expenses and productivity. As we've been telling you in the past, our cost base has been coming down measurably, consistent with our commitment. Excluding restructuring costs that I spoke to in the previous slide, but including Keyport, as you can see on the left-hand side of the chart, our expenses were 357 million dollars. The 357 includes Keyport, up 23, and if you exclude the Keyport expenses, the 334 that remains is down 15 percent from a year ago. It is slightly higher in the fourth quarter as is typically the case when for seasonal reasons you get more accruals and expenses as invoices keep going through the system. The expense ratio at 21.7 percent is well below where it was a year ago, well below most of the quarters, slightly up from the third quarter where we had a particular dip and partially because, as I mentioned, the Q4 is always slightly higher. You see the same pattern on the right-hand side with MFS expenses up 249 million dollars down 16 percent from a year ago, and also its expense ratio being down measurably from a year ago. So expenses, the low cost producer is an important standard for the organization as you can see here. Turning then to our financial strength, our capital and our debt to capital. As a result of the Keyport acquisition we were able to achieve an improved capital mix. As you recall at our IPO road shows and the many discussions we've had thereafter, we were targeting a 25 percent debt to capital ratio and a MCCR of north of 185. And indeed, we came very close to that this quarter. So we're comfortable with the targets capital position that we have attained, although we expect the MCCR to increase somewhat over the ensuing quarters.

So before I pass the mike over to Jim McNulty, I will do a quick review by country of the progress made over the last quarter.

The first one is the Canadian Operations. As I mentioned in the sales slide, Canadian Operations were very much focused on profitable market share and as a result, its ROE was 18.6 percent despite the focus in profitable market share, its sales were up eight percent. In the fourth quarter of 2000, there were 17 million of favourable items, which were one-time items which we discussed in detail a year ago. If you exclude these items, earnings are up 27 percent. The improvement in earnings were seen broadly across the board in the major product line in the Canadian Operations.

The following page speaks to the U.S. Annuity & Insurance Operations. The U.S. had an excellent quarter as well with Keyport contributing 27 million dollars. Excluding Keyport, earnings are ahead of previous quarters. ROE is somewhat lower as a result of difficult market conditions, depressing the ROE on the variable annuity products. And a fact as well, we have great progress on the integration of Keyport as Jim will report to in a moment, there are more synergies to be attained in this particular area.

The page that follows shows you how the MFS has fared. MFS has done a great job in mitigating market reductions with strong sales and expense reductions. As I mentioned, on average, the market was down 18 percent from a year ago and its earnings, MFS's earnings were down slightly as well, to 50 million dollars in the fourth quarter. Assets under management are roughly where they were a year ago.

You see a slight reduction in return on equity partially because of reduced earnings and partially because the capital is built up somewhat in MFS.

Turning then to the U.K. Operations on page 21. A year ago, we announced the closure of the sales force in the U.K.. We did that. We sold the bank. We sold the asset manager. We reduced our staffing by over 1300 FTEs and we signed an agreement to outsource the administration of the closed block. You can see the earnings in the ROE have increased dramatically as a result of all these very decisive actions and we expect a continuing ROE in the mid to high teens going forward.

Turning then to the Asian Operations, we continue to invest in Asia. This is very apparent when you look at your revenue line. Revenues are up 29 percent from a year ago, and the earnings line, which showed a break-even because of these continued investments. Asia is very much meeting its interim operating plans and it's creating significant embedded value, which is not at this point in time reflected in earnings but will be in the future. This concludes my portion of the presentation. Jim McNulty, our Executive Vice-President of our U.S. Operations, will now review the progress we've made with regard to the Keyport integration.

Jim McNulty: Thank you, Paul.

Good afternoon, everybody. In May, we announced the acquisition of Keyport and IFMG and we finally closed on October 31st of last year. The Keyport and IFMG acquisition gave us product, distribution and scale. Relative to product, we now have a broad spectrum of annuity product offerings, having added fixed and equity index to an already strong variable annuity line-up and we have some innovative products in

the pipeline. Having this broad spectrum of choices is a significant advantage in today's market.

On the distribution side, it gives us access to some new distribution channels, with particular strong emphasis on expanding our bank distribution capabilities.

In terms of scale, as Paul mentioned in his report, we added significant assets and expect to capture attractive skill-driven operating economics. We'll talk about that in a minute. And it does move us up the ladder in terms of market rank. Specifically at the end of the third quarter of 2001, our combined company market rank gives us number 13 in variable, number 13 in fixed, number 15 in indexed, although that number is not a current number because we don't have the data yet, and overall number 12 total annuities. Our focus as a company is simply to be in the top ten in all of these products. You previously might have seen some other market ranks, which were end of 2000. So we're giving you the third quarter of 2001. For the deal, we continue to expect, as Don mentioned, that the deal will be accretive in the range of 15 to 20 cents. The longer than expected approval period from signing to closing actually was a significant advantage for us as it gave us a chance to get a jump on the integration planning issues. We had a dedicated team. We used a well-known outside consultant to work with us who has a lot of experience in integration and as a result completed significant, disciplined integration planning. We have a detailed plan by each functional area. We have specific milestones for revenue and expense synergies. And integration targets that have tied to management incentive plans for the next two years. We have a scorecard in place to measure all those results, and I should mention

that it was a significant advantage having Keyport in our backyard. Their culture was very similar to ours. The company seemed to be blending very well. But to have them right down the street, I can't emphasise how much of an advantage that was for us. We were fully prepared to go on day one when we took over. The key challenge for the organization of course was that an acquisition of this size can be a significant distraction to the organization. While we had a dedicated group working on it, nonetheless it was very important for us to stay focused on the core businesses.

We went live on November 1st. There were no significant glitches, pretty much transparent to distributors and customers. On closing, we merged the corporate support areas, HR, Finance, Systems, as well as product and actuarial areas. The operations area of the back room, we have begun the process of integration, but will take some time as we tie together a number of different systems. But our expectation is that within 18 to 24 months, we'll be pretty close to complete on that. Actually otherwise, most of the other key functions are already integrated. On closing, we released 25 Keyport personnel including a number of key executives. I think the most important thing to express is that what we saw was what we got. There were no major surprises in what we acquired. There has been no evidence of distributor or customer retention issues. As a matter of fact, we've had a strong, positive reaction from distributors of both the Sun Life distributors as well as Keyport, and the client retention results to date appear to be well within the norm. So we haven't seen anything that concerns us at all. It's important to note that we did reorganize or restructure our annuity business at closing. We hired Phil Polkinghorn, who is

President of Keyport, and Phil now runs what we call our annuity manufacturing segment. We broke out the distribution and the manufacturing. And Ron Fernandez, who previously headed up the annuity business, is now running the distribution for annuities. Having Phil and retaining a few other key Keyport executives has really strengthened the organization overall but also has provided the necessary fixed and indexed expertise that we felt we needed. In terms of the cost reductions, the overall cost reductions in 2002 will be 25 million US. That is in excess of what we projected to you. The original projection I believe was in the 19 to 23 million-dollar range. So we'll exceed that. And for 2003 on a cumulative basis, we'll be at 38 million cost reductions, whereas our projection has been in the 34 range. So we will have exceeded the projections for both years and we're well on our way to achieving that. We're very confident we will get that in those years. I mentioned earlier that we released 25 or so people at closing. We're currently down 54 people and expect to have a total reduction of 75 at the end of 2002, an additional 30 or so in 2003 and 30 more when we get all of the backroom systems tied together in 2004. So that will be a total staff reduction of 135 which is in excess of 35 percent of where we started.

If we can switch to IFMG for a minute, Independent Financial Marketing Group, they had a record sales year in 2001. They had total sales of over four billion of product, although included in that it's important to point out that there are some annuity processing business. Most importantly, however, it's the proprietary sales. The business that had previously gone to Keyport and Liberty and now will come to Sun Life, MFS and Keyport, sales in 2001 of 1.5 billion up 40 percent over 2000 with a

plan of 2.3 billion US for 2002. IFMG will remain a stand-alone operation. We've committed to invest here. IFMG is the number one 3rd party marketer in banks and we're confident that we can fully leverage this acquisition. On day one, we introduced Sun Life Futurity variable annuities, MFS funds and Sun Life variable life. All of those products will be on the proprietary or preferred shelf and we expect a significant percentage of total IFMG sales to come to the companies I mentioned, or to our companies. In addition, the Keyport rating improvements also gave a boost to IFMG and Keyport sales. I've said this before, but IFMG is truly the frosting on the cake in this acquisition. The integration was simple. We haven't lost a step during the transition and for all intents and purposes, IFMG is essentially fully integrated now.

We also expect to leverage the deal from a sales distribution standpoint, not only with IFMG, but we'll take the Keyport products to our Sun distribution system. We will continue to provide annuity products for Liberty Financial distributors. Liberty Financial distributors previously sold Keyport products, but they went with the deal when the asset management company was sold. So they will continue to sell our annuity products. We will continue to provide them for them. So that's a new channel for us. Fleet Bank was a good distribution outlet for Keyport previously and that relationship will continue and we're hopeful that although it's a primarily fixed business, at this stage we expect that we will get variable on the shelf as well.

And of course, we will also look at offering Keyport products through the MFS distribution system and MFS Regatta products, as I mentioned earlier, through the IFMG system. Keyport total sales for 2001 were 2.6 billion US. A piece of that is

including IFMG. Up 30 percent over the prior year, mostly in fixed. The current run rate will get us to three billion or more in 2002.

On the investment side, there will be approximately 13.7 billion of assets managed by our investment operation in Wellesley. We have brought in about nine billion to date, previously either with Keyport or outsourced. And essentially there is no more Keyport investment functions, so it's either all in house or we left a little outsourced.

The increase to our investment staff was minimal and savings in investment costs will be pretty substantial. Upon closing, we marked the assets to market and we are closely managing the asset liability duration mismatch. At mid-year, Keyport was mismatched by about a year. It was about a year-long and currently we're about at half a year. We're confident that we can effectively manage the spreads as we move the Keyport portfolio closer to Sun Life investment practices. In terms of future challenges and it's really perhaps more of a future milestone that will take most of our attention, it is knitting together the backroom. We have already integrated the management teams in the operations areas. We will continue. We expect to get savings both in 2002 and 2003. But once we get the areas completely knitted – and I had mentioned before that we expected that to be about 24 months. We can see another five to ten million of savings in 2004 on top of what I had previously discussed. There had been... during the transition, we did lose a few people that perhaps we would liked to have retained, but I would tell you that's pretty immaterial because we have kept most of the people and are very pleased with some of the top talent that we've kept, and we are confident that we have enough people so that we

retain the institutional knowledge that was in place at Keyport. So essentially we're confident that we will deliver within the range of the earnings that has been previously communicated in the 15 to 20 percent range. We'll get some good growth. We've picked up some top talent and our experience in this integration will serve us well for future acquisitions. I guess in summary, we're well ahead of plan. Accountabilities are clear and centre plans depend on the success of achieving goals. And many of the areas that I've touched upon are already integrated and working well. So we're confident that we have really taken the best of both companies to maximize the value with this deal. Back to you I guess, Don.

Don Stewart: Thank you, Jim, for that thorough review of the progress on the Keyport integration effort. We recognize that it's critically important for investors to receive regular updates on integration progress in order to form an accurate assessment of how acquisitions are enhancing our ability to grow shareholder value. It is our intent to continue to provide this kind of regular update in the progress relative to important integration milestones. In summary, it was a strong finish to a solid year, as we head into 2002, investors can expect to see Keyport adding an incremental layer to earnings growth. In 2003, the results of the Clarica integration should be adding a second leg to our earnings trend and if and when we see a rally in the equity markets, our wealth management business will provide the shareholders with a healthy leveraged participation in that growth as well. These three sources of earnings growth are all in addition to the continuing growth you can expect from our core franchise. With that said, we feel very comfortable with our ability to meet or

exceed the current I/B/E/S estimates of \$2.35 for 2002. I'm happy to address your questions and we'll take a few from the analysts here in the room.

OPERATOR: Thank you. One moment, please, for your first question.

Tom Rice: Operator, we're going to start with questions in the room and then we'll go to the phones.

OPERATOR: Okay.

Tom Rice: Ian?

Ian de Verteuil: Congratulations on a great and very busy quarter. The questions I have really relate to the balance sheet. One of the things, the growth impaired loans are up quite meaningfully. I presume it's some of the bonds coming off the Keyport block. It didn't look as if there was a lot of allowances that came with that. I was sort of wondering if you could talk to that and how clean are those impaired loans compared to what you thought. And a second one is page 17, which is your derivative exposure. The derivative exposure jumped dramatically in the quarter. And I presume that the derivative to hedge the index annuity in this world where we worry about our own shadow, what can you tell us not to worry about those things?

Jim Prieur: Ian, with respect to the Keyport assets, basically what happens of course when you do an acquisition is that you mark the assets to market and so while the number of below investment grade bonds, high yield bonds that were added to the portfolio was very significant, much of the decline in value was recognized when we brought them onto the books. And that's why you don't see any additional reserves. They are already marked-to-market. With respect to the derivative exposure, you're

absolutely right. The equity indexed annuity business requires a significant amount of equity hedging to take place. And the other thing that we have talked about in the past has been that we are very serious about risk management and we take a view to try and hedge any significant risks which we might have against equity market declines moving forward. So it's a combination of those. The bulk of the increase in the derivatives was related to the Keyport acquisition.

Ian de Verteuil: So those are just... Did you put them on yourself, or did you inherit them or are they entirely just a hedge of the risk on those annuity products?

Jim Prieur: Of the increase in the equity derivatives, by far the bulk of the equity derivatives were already on the books at Keyport when we brought the book onto our books. And we also did some further hedging, part of our regular dynamic hedging that we undertake as part of our risk management program.

Tom Rice: Heather?

Heather Wolf: I had a question on the U.K. division. Presumably, what happened this quarter is you all realized significant cost synergies from terminating your sales force there and the revenues from putting the block of business into runoff have not yet started to run off, so to speak. I'm curious if you can give us some guidance on when you think those two I guess line items will come back in balance.

Paul Derksen: If you go through the math, if you model the book going forward, you will see that many of the policy holders will continue to contribute over time. And so the book will be impacted for quite some time and will be continuing to generate earnings and ROE as I mentioned in the mid to high teens for quite some time.

Heather Wolf: And in terms of top line, where do you anticipate that going from here and how quickly do you anticipate it coming back?

Paul Derksen: In terms of U.K. life business, we obviously closed the sales force. So we won't have any new sales. And so that any top line growth will be a result basically of whatever happens organically within the closed book and also Group of course. The Group business is still there but it is being actively sold.

Tom Rice: Tim?

Tim Lazaris: Yes, my question has to do with MFS. I'm just trying to get an understanding of the total revenues for the quarter Q4 over Q3. If you just look sequentially, it seemed to be pretty flat and I think I'm sensing that you said that the assets were actually down for the quarter versus the third quarter. And yet, the earnings are down a little more than the revenue. Could you comment on whether it's a year end? Is it an expensive operation at year end? Is that why the expenses are up? Is it bonuses? Or how can you explain the sort of expense ratio, if you will, quarter over quarter?

Paul Derksen: As I mentioned, the markets were down three percent on a daily average or weekly average. That's really how the revenue comes in as opposed to looking at a quarter end over quarter end, that's number one. And secondly, usually most organizations that I've been associated with, in Q4, expenses go up because the invoices come out of the drawers and things get accrued marginally. So it's not a huge increase. I think you'll find that the first quarter expenses will be slightly lower again than we had in the fourth quarter and that's a pattern that I think is seen in most

companies. So there is no fundamental shift in the fundamentals here. It's just the usual Q4 I would say behaviour when the markets are down three percent.

Tim Lazaris: Do things like bonuses get accrued in the fourth quarter for portfolio management?

Paul Derksen: They get accrued throughout the year, but it gets fine-tuned at the end of the year and that would be the fine-tuning would have some impact of course on the expenses as well.

Tim Lazaris: Thank you.

Tom Rice: Tom Jarmai

Tom Jarmai: Don, I just wanted to ask you to give us a bit of an update on the U.K. in terms of what is the capital base there? How important do you think outsourcing the back office is to an ultimate resolution to the U.K., i.e. repatriation of capital?

And I guess the last impact of that is at June 02 as some figure point towards pension misselling and does this improve in any way of repatriating this capital?

Don Stewart: To respond to the question in reverse order, the June 2002 deadline for pension redress is a milestone, but it's not the end of the work that's involved. It's simply a cut-off point for identification and contact. And in fact, there will be small (inaudible) will carry on. At this point, we are ahead of our timetable for pension redress. We believe that our reserves continue to be in healthy shape. So we don't anticipate any adverse financial impact from pension redress. But you should not expect that at the end of the second quarter of this year, that pension redress is instantly completed. It's not. In terms of outsourcing, I think the important dimension

that outsourcing has brought to us is the continuity of staff and the stability in what has been quite a volatile, or a very rapidly changing situation. So there's a very important benefit to us. But I don't think you can see anything beyond other than it's a stable, effective solution to a closed book of business which is quite hard to manage from a people and structure point of view. I don't see anything beyond that. If I look at the capital that we've got there, my memory says that it's approximately one billion Canadian dollars. Can someone fine tune that a little for us?

Paul Derksen: Including the debt, it's 1.2 billion and it's down from a 1.6 billion what it was before, the 400 million difference being the capital that was repatriated as a result of the sale of the bank and the asset manager.

Tom Jarmai: And was that repatriated to Canada?

Paul Derksen: Yes, it was.

Tom Rice: Michael Goldberg.

Michael Goldberg: Thank you. About a year ago I guess it was, you gave us an idea of what the sensitivity of the company was to market movement if you didn't take any actions to mitigate market movements. I wonder if you could sort of bring us up to date now on how much the decline in markets cost you, how much the actions that you took mitigated that cost, and what the sensitivity would be now?

Paul Derksen: What we said last year is that the bottom line would be impacted 15 million dollars for each one percent move in the marketplace. And if you go to our earnings at risks analyses that we do from time to time, you find that prior to mitigation, that that is very much still within the range.

You can do the math yourself, I guess, based on that and see with an 18 percent reduction in the marketplace, what the impact would be on earnings and what actually happened to earnings. So I would say that we've been very, very busy mitigating the impacts through cost reductions, aggressive sales and other methodologies.

Tom Rice: Operator, can we take a few questions from the phones?

Operator: The next question comes from Mario Mendonca. Please go ahead.

Mario Mendonca: Good afternoon. The quarter looks good from here. One detailed question on fixed annuities and then a few follow ups after that. On the fixed annuities, now that it's become a pretty important part of your business, if you could address what's going on with crediting rates in the fixed annuity business, one of your competitors this year, or rather this quarter, had some great fixed annuity sales and there were a number of issues surrounding crediting rates. If you could address that? This is probably for James or Mr. Prieur. Secondly, with respect to fixed annuities, the whole issue of excess capital is certainly going to become important going forward. The fixed annuity business is significantly more capital intensive. What does that mean to you in terms of the MCCR? We saw the MCCR at 190 this period. Does it have anything to do with the big inflow of fixed annuity business? And finally, some of the annuity reinsurers out there are starting to make some noise about minimum interest rate guarantees and the impact on their reserves as a result of the declining interest rates. If you can touch on that as well in the context of Keyport.

Jim Prieur: Sure. Well, with respect to the crediting rate and what may appear to be irrational competition from time to time, irrational competition does occur from time

to time and people will go out to try and grab market share using very aggressive crediting rates. It does vary from quarter to quarter. I don't think I can say much more than that.

Mario Mendonca: Maybe where does your crediting rate stand right now relative to your peers?

Jim Prieur: It's very comfortably set to produce the earnings that we expect to earn from the block of business. So we have not been that aggressive. With respect to the capital ratios, obviously the big impact in this past quarter was simply that we did close the Keyport transaction and deploying all that excess capital in Keyport had the largest single impact on the MCCR ratio.

Mario Mendonca: But am I right in saying that the MCCR may have dropped a little more than we had originally anticipated?

Paul Derksen: I would say, Mario, that it's primarily because of lower markets in general. And so when we presented it to you in May, I think we had it just around 200, a little over 200. The MCCR and we came in at 190 because broadly speaking, the markets are worse now than they were then. But beyond that, everything else is basically going in accordance to what we had anticipated.

Mario Mendonca: And the minimum interest rate guarantees?

Jim Prieur: And with respect to that, Mario, we take a look at all of the interest rate risk that we have when we do our risk management work, and we have various mitigation programs against minimum interest rate guarantees in our U.S. block.

Mario Mendonca: That's more of a... is that more of an annuity reinsurance issue than it is a primary insurance issue?

Jim Prieur: It's something that we take into account when we look at all of our interest rate risks in aggregates and there are ways of mitigating it through interest rate floors that you can purchase.

Mario Mendonca: So no concerns right now then?

Jim Prieur: There are no concerns right now.

Mario Mendonca: And then just a couple of quick follow ups then on other lines of business. The group pricing in Canada, it looks to be becoming more competitive. You said you sort of backed out of the market there, after years, or at least a year and a half of really hard markets and Group it looks like things are getting tight again. Is that true?

Jim Prieur: In the Group business, once again there's an ebb and a flow of competitive wills in the marketplace and in particular in Canada, life risk is something that you have to be very, very careful about. So the underwriting, you have to maintain a certain level of underwriting standards to ensure that you're going to be profitable going forward.

Mario Mendonca: So the pricing is getting a little tough again, then?

Jim Prieur: Pricing which had improved got a little tougher.

Mario Mendonca: Okay, and a final question, the debt to capital that you referred to, how do you treat goodwill in the context of calculating debt to capital now, the Keyport goodwill essentially, which is the majority of it right now?

Paul Derksen: In that particular calculation, the goodwill is ignored.

Mario Mendonca: Meaning entirely removed from capital, or entirely left in to capital?

Paul Derksen: It's entirely left out.

Mario Mendonca: Left out?

Paul Derksen: Left in, I'm sorry. Left in.

Mario Mendonca: Left in. Okay, that's good enough. Thank you very much. And that was a good quarter.

Operator: Ladies and gentlemen, if there are any additional questions, please cue up at this time. The next question comes from Colin Devine.

Please go ahead.

Colin Devine: Good afternoon. Just a quick one. Assuming we talk a little bit about the annuity business and how the flows can have gone sort of more and more negative each quarter despite the push now in the fixed channel, what's being done to get that turned around?

Jim Prieur: Sure, Colin. The net redemptions are particularly seen in the single manager product as opposed to the multi manager product and so that's where the greatest competition has been. And what we've done is we've done a number of things. First of all, we've broadened the number of wholesalers who are selling the regatta fixed and variable annuity products at MFS distributors. What we have done is we've gone from a system whereby we had a little bit more than 20 wholesalers to broadening the coverage to a full 90 wholesalers across America. And we think that

this will have a very significant impact on market share moving forward. We've also revisited pricing and we're going to be coming out with yet another version of our product in the May cycle.

Colin Devine: Okay, and then a quick question. Well, may be not a quick question for Paul which I almost hesitate to raise, but Paul, if you go to the proxy statement, and we look at Keyport, it was... retrospectively it would have been a hugely dilutive transaction for the first nine months. And yet, it's accretive in the fourth. And perhaps you can just, if it's possible to do it quickly, run through sort of the conversion from US GAAP to Canadian GAAP while you're running it now and how that favourably impacted earnings.

Paul Derksen: I think in Canadian GAAP, the accretion of Keyport in the first two months has been very much consistent with what we've said in May. If anything, it's adding more than what we thought. As you know, there's a huge difference between US and Canadian GAAP, particularly in regard to how the US GAAP requires you to provide a hedge for mismatches, etc. We've been working very hard at reducing the mismatch. As Jim pointed out, the duration is much narrower, much smaller than it was before the mismatch. But that would have been the major difference between US and Canadian GAAP.

Colin Devine: Why was it so negative though, under Canadian GAAP, for the first nine months versus that it's not now? I wanted to just make sure I understand how that happened?

Paul Derksen: Well, specifically when you run an operation to a particular GAAP, you run it quite differently. And so the way we're currently running the operation focused on the targets that are beneficial under Canadian GAAP, we don't expect to see what you see in some of those statements.

Colin Devine: Could you expand on that a bit in terms of the targets? That's really what I'm trying to get at. How are you running it differently now that can produce such dramatic results?

Paul Derksen: You're reducing the risk profile of investment portfolio measurably and you also minimize the mismatch between the assets and liabilities. You run a much lower risk profile organization. And based on that, you have to put up lower provisions in Canadian GAAP now than we would have had we... the way that the business was run before. So we're making it a much more conservative operation and as a result creating more significant contribution under a Canadian GAAP.

Colin Devine: Thank you very much.

Operator: Mr. Rice, there are no further questions at this time. Please continue.

Tom Rice: We have some additional questions here in the room. Tom MacKinnon?

Tom MacKinnon: Yes, a couple of quick questions here. One on in the US, you've got a segment called investment portfolio and other, and that's been negative for a couple of quarters. And now, it's even better than group life and health at 16 million. Maybe you can just refresh on what is in that segment and then why did it change so much in this quarter?

Jim Prieur: Essentially, the investment portfolio is all other. So it's the territorial surplus plus the impact of the investment portfolio on the account. It can move if tax rates change dramatically. It moves based upon provisions being added or being reversed. And it tends to fluctuate a little bit more than the base business of the company.

Tom MacKinnon: And was any of the fluctuation associated with the Keyport acquisition at all?

Paul Derksen: One of the things that happened in there is that we had a bit of a tax settlement of I think it was around – I'm going by memory now – around 12 million dollars. I would say that that was offset by reductions elsewhere so that in the aggregate, if you take these and other items and go through the income statement, the earnings that we reflected at 57 cents are very reflective of the core operations of the business. But sometimes, you get a little up here and a little down there. In the aggregate, it's actually right on the dot.

Tom MacKinnon: And just one quick follow up on MFS. You talked about increasing market share, expenses year over year down 16 percent. Yet, if I look year over year, the markets were down 18 percent and MFS's earnings were down 17 percent. I mean, do you just have to keep running faster in this business? On the surface, it looks like things are going quite well, but then you actually have to decrease your expenses year over year that much just to do as well as the market year over year.

Paul Derksen: Yes, obviously MFS has done a great job in terms of reducing expenses and it's easier in the beginning than it is at the end. And I would say that as time goes on and if the markets were to get worse going forward, it would be harder and harder to cut expenses commensurately. Although I think so far they've done a great job and they'll continue to push towards that.

Tom Rice: Brad Smith?

Brad Smith: Yes, Jim, I was wondering, you commented on the pricing in the group business. Can you just comment on the Canadian individual life pricing?

Jim Prieur: There hasn't been a whole lot of change in individual pricing in the last little while, in the last quarter.

Tom Rice: We have time for another question or two. Tom Jarmais?

Tom Jarmai: Paul, just a couple of quick questions. One is the book value adjustment of 207 million, if you could just maybe go through a little bit of the background of that. And secondly, Spectrum and other was 20 million. It would seem to be a jump there. So I was wondering if there's a big other or a big spectrum.

Paul Derksen: Nigel Hodges is our Controller. I'm going to ask Nigel to speak to the 207 million.

Nigel Hodges: That comes from the change in actuarial standards that they moved to, what is now known as CALM and used to be known as PPM. I think we mentioned at the third quarter that as far as this company is concerned, the only impact is within the United Kingdom on the unit link business and pensions business there, and that is the prior period impact that changed.

Tom Jarmai: If I could just follow up, there appeared to be a three million impact in the quarter on the earnings. Could you... is that a level amount that we can expect to come in from this, or obviously that's a fluctuating number? But that three million, how does it relate to the 206?

Nigel Hodges: That is the impact in the year 2001 of that change. It will be small going forward. The new methodology will actually give somewhat more stable earnings because it's fundamentally a deferred acquisition.

Tom Jarmai: So its DAC related and it will accrete into income, the market value? Okay, thank you.

Paul Derksen: In terms of the second part of your question, and I think your question was with regards to the improvement in earnings in Spectrum relative to a year ago? Well, there were some special items in 2000 which affected the base. Beyond that, I think Spectrum has been run with a fairly low expense base. Expenses are actually down somewhat, which further improve earnings but the bulk of the comparison issue is in Q4 of last year rather than this year.

Tom Jarmai: I'm sure it's in there, but what is Spectrum's contribution?

Paul Derksen: It's in the package here.

Tom Jarmai: No, I'll just look it up. Thank you.

Tom Rice: We'll take one last question from Michael Goldberg.

Michael Goldberg: Okay, can you comment on why you feel confident that the Clarica deal will actually go forward and what kind of integration activity can you or

have you done in advance of this transaction? You mentioned initially that there's been work on integration already.

Don Stewart: Sure, as far as my confidence about the closure, we think this is a compelling partnership, but the market is the market and we are subject to a shareholder vote and regulatory approval.

Shareholder vote, as you know, is on March 6th. I can't say much more than that we're working very hard towards that. The proxy circular mailing is a major logistical exercise. It goes out to hundreds of thousands of individuals, entities, but the market will be the ultimate judge of the bid. In terms of the work that we're doing to plan integration, there's a great deal of work going on. There are eight separate teams that have been formed for Canadian Operations. There's a separate group looking at the United States integration and there's a third group looking at corporate headquarters type activities. The aim is that in the light of a successful shareholder vote on March 6th, that Bob Astley, who is in charge of the Canadian integration, would be able to announce a number of definitive statements going forward between March 7th and ultimate closing which subject to regulatory approval we'd expect to take place in the second quarter. So the idea is to get enough specific definition to the effort to work against some of the inevitable uncertainty that takes place when you have a large combination, such as we have. So I hope that addresses your questions, but let me assure you that there's a great deal of effort and a lot of accomplishments being achieved and there will be a great deal more work done between now and March 6th, and then again between March 6th and the closing in Q2.

Tom Rice: At this point, we've run over our one-hour time frame. I'd like to thank everyone. I'd like to close our call.

Operator: Ladies and gentlemen, this concludes the conference call for today. Thank you for participating and please disconnect your line.

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