



Sun Life
Assurance Company
of Canada

116th Annual Report
1986

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Cover Photo:

Halifax agents Elbert Stevenson and his son, Andrew, are part of a successful Sun Life team that provides financial services to our many individual and corporate clients worldwide. Like their colleagues, who are also featured in the 1986 Annual Report, they represent the many knowledgeable, helpful and approachable Sun Life people in whom our clients have placed their trust.

Sun Life is also very proud that, over the years, a number of sons and daughters of agents and employees have chosen to follow in the footsteps of their parents and pursue a career with Sun Life.

Nous nous ferons un plaisir de vous faire parvenir sur demande la version française du présent rapport.

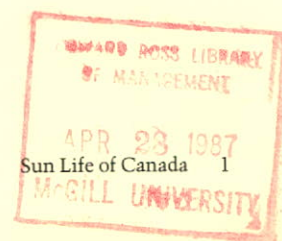
Sun Life Assurance Company of Canada was incorporated under the laws of Canada and started business in 1871. It is a mutual life insurance company which offers a broad range of financial services and products for groups and individuals through the parent company and its subsidiaries. These include life, medical, dental and disability insurance, annuities, pension and investment management, savings and investment instruments, financial planning and related services. Sun Life provides funds for private placements, mortgages and loans. The Company is also active in the retrocession market on an international basis.

Sun Life, including its subsidiaries, has more than 6,000 staff and 3,600 field representatives in its international organization. Sales and service offices are located in major cities in our principal countries of operation – Canada, the United States, Great Britain – and in Bermuda, Hong Kong, Ireland and the Philippines.

With assets of nearly \$20 billion, additional assets under management of \$17 billion, and \$144 billion of life insurance in force, Sun Life is one of the largest life insurance companies in the world.

Company Highlights

in millions of Canadian dollars	1986	1985	Percentage increase
Assets at December 31	\$ 19,250	\$ 15,960	21
Additional assets under management	16,934	12,271	38
Life insurance: in force	144,192	123,157	17
new sales	31,541	24,593	28
Funds held for annuities in force	5,748	4,795	20
Premium income	3,571	2,983	20
Income from investments	1,833	1,536	19
Payments to policyholders and their beneficiaries	1,949	1,864	5
Policyholder dividends	279	226	23
Total revenue for the year	5,555	4,823	15
Operating income before dividends	463	370	25



Sun Life Assurance Company of Canada had an excellent year in 1986. We strive to provide high returns to our policyholders and it is a pleasure to report to you that dividends to participating policyholders were increased, effective April 1, 1987. Increases were also declared in the scale of special maturity dividends in Canada and the United States, as were increases in terminal bonuses for participating policyholders in Great Britain and Ireland. These increases recognize policies of long duration. Total dividends paid to or set aside for participating policyholders in 1986 amounted to \$279 million.

Highlights of Company Results

General economic conditions in the major countries where we operate were favourable. Inflation remained relatively low; stock markets rose; and interest rates in general showed a declining trend. These factors had a beneficial effect on the Company's operations during the year.

Sun Life's earnings increased in 1986. Consolidated earnings from operations grew by 25 percent to \$463 million. After provision for policyholder dividends on an increased scale, net income reached \$184 million, an increase of 28 percent over 1985.

Sales during 1986 were excellent. Premiums from new insurance and annuity business grew by 39 percent to \$1.1 billion.

The overall quality of the assets held by Sun Life is one of the foundations of the Company's considerable financial strength. Total consolidated assets rose by 21 percent during the year to \$19.3 billion on December 31, 1986. Additional assets under management by Sun Life's investment management subsidiaries rose by 38 percent to \$16.9 billion at the end of 1986. Total assets managed by the Company and its subsidiaries amounted to \$36.2 billion at December 31, 1986, up 28 percent.

Company Management

Mr. Jack Brindle retired as President on December 31, 1986. His 39-year career with Sun Life saw him rise from an agent in our British operations to become General Manager of the British National Organization and, in 1984, to President and a Director of the Company. Throughout his career, Jack contributed in important ways to the Company's growth and development. As Chairman, I am pleased to be able to continue to draw upon his experience in his role as a Company Director.

Effective January 1, 1987, Mr. John D. McNeil, formerly Executive Vice-President, became Deputy Chairman and a Director, and Mr. John R. Gardner, formerly Senior Vice-President and Executive Officer, became President and a Director.

At the Annual General Meeting in May 1986, having reached the customary age of retirement, Mr. Albert L. Fairley, Jr., and Senator Ian D. Sinclair retired from the Company's Board of Directors. I also note with sadness the death in June of our director Mr. H. Roy Crabtree who had served on our Board for 22 years.

Two new Directors were elected at last year's Annual Meeting: Sir Peter Baxendell, Chairman of Hawker Siddeley and retired Chairman of the Committee of Managing Directors of the Royal Dutch / Shell Group, and Professor Colyer Crum, Professor of Business Administration at Harvard University.

Company Developments

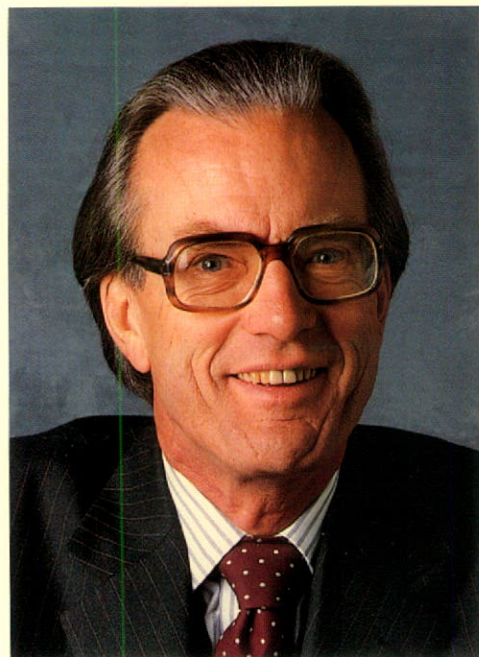
The trend toward deregulation and re-regulation of the financial services industry continued in 1986. Competition has intensified, with companies increasing the variety of products they offer and developing increasingly sophisticated customer support technology. The steps taken over the past few years to decentralize operations have given Sun Life the flexibility required to respond rapidly to market and regulatory developments. In all major territories, Sun Life continued a vigorous marketing effort covering all our business lines. Our traditional products did well and sales results from new products introduced during the year indicate good acceptance in the marketplace.

We recently acquired two financial institutions in the United States: the New London Trust Company in December 1986 and the Massachusetts Casualty Insurance Company in January 1987. The purchase of New London Trust Company will allow us to offer banking and trust services to our own clients and to the clients of Massachusetts Financial Service's broker-dealer network in the United States. Massachusetts Casualty Insurance Company of Boston is a nationwide disability income insurance company licensed in 48 states and with a fine reputation in that market. Both companies are expected to be profitable investments, as well as adding to our ability to serve our customers.

Sun Life views the mutual fund business as complementary to the savings and investment products that we provide as a life insurance company. Accordingly, we are pursuing strategies that will maintain Sun Life as a major factor in the mutual fund business in the United States, and establish the Company in this business in the United Kingdom and Canada. Sun Life of Canada Unit Managers Limited, a new unit trust management subsidiary of Sun Life of Canada (U.K.), launched two new unit trusts or mutual funds in mid-year, which raised £10 million.

A new company, operating under the Spectrum name, was established in Canada in late 1986. It will distribute and manage mutual funds, initially through the Sun Life agency network, and subsequently through independent brokers as well. The company will start by offering money market, bond, common stock and diversified funds.

The Sun Life family of financial services companies is developing and changing as we add new members, new products and new distribution systems. A new, up-to-date symbol has been selected to bind together our people and to remind them and our clients of our common purpose. The symbol combines the first letter of our name with the bursting rays of the



**Thomas M. Galt,
Chairman and Chief
Executive Officer**

sun. A visual identification program, which includes the sunburst-S symbol, new typographic style and colours, is now being implemented throughout the organization.

Financial Services Legislation

In December 1986, following a lengthy process of consultation, the Government of Canada published a paper outlining its policy for future regulation of financial institutions. Sun Life agrees with the Government's decision to encompass all federally regulated financial institutions within the policy framework. We are also pleased with the overall thrust of the proposals, and in particular with the new rules proposed for the life insurance industry. In terms of direction, the policies in the Government's paper parallel the suggestions our Company has made and are compatible with our future business plans. The proposed Canadian legislation will have a major bearing on our activities in all the countries where we do business.



The Executive Committee of the Board reviews the Company's investment activities and discharges management responsibilities on behalf of the Board. Shown (left to right) are John A. Brindle, Thomas M. Galt (Chairman), Alfred Powis, Jock K. Finlayson, J. Peter Gordon and A. Jean de Grandpré.

If Canada's financial institutions are to be able to keep pace with rapidly changing world markets and to continue to meet consumers' needs for financial services, passage of legislation at an early date is of utmost importance. Prompt action is necessary to remove the current uncertainty, so that financial institutions can make plans based on a clear understanding of the rules under which we will be operating.

Conclusion

I would like to record here my appreciation to the staff and field force for their contribution to a successful year. The Company had outstanding results in 1986. With our financial strength and management capabilities, we are well positioned to compete successfully in international markets and to serve the changing needs of our individual and corporate customers for financial services in 1987 and beyond.

Thomas M. Galt
Chairman and Chief Executive Officer

As part of the Company's annual management process, Sun Life establishes goals covering all aspects of its operations. In view of the very ambitious goals set for 1986, our results are especially pleasing since we exceeded our objectives in many areas.

Financial Results

Assets

At December 31, the consolidated assets of the Sun Life Assurance Company of Canada had grown to \$19.3 billion, an increase of 21 percent over 1985. Other assets under management by Sun Life subsidiaries Massachusetts Financial Services, Sunimco and Sunesco amounted to \$16.9 billion, an increase of 38 percent. Total assets under management by Sun Life and its subsidiaries now amount to \$36.2 billion, an increase of 28 percent.

Revenues

Life insurance premiums increased to \$1.1 billion, 16 percent greater than last year, while life insurance reinsurance premiums grew by 79 percent over last year.

Annuity premiums continue to show significant growth; by the end of the year they had contributed \$2.1 billion to overall premium income, up 23 percent. The major factor in the growth of annuity premium income was individual and group pension sales in the United States.

Health insurance premiums were up 12 percent, reaching \$301 million.

Net investment income for the year was \$1.4 billion, a 16 percent increase over last year. Major items contributing to the increase were higher bond and mortgage interest income, increased net rental income from investment properties, greater capital gains, and the amortization of realized gains and losses on bonds and mortgages and realized and unrealized gains on stocks and real estate investments, as explained in Note 2 of the Financial Statements.

Other income relates mainly to MFS activities which generate revenue from investment advisory fees, mutual fund sales commissions, transfer agent fees and management fees.

Expenditures

Total expenditures increased 14 percent to \$5.1 billion. Of this total, nearly \$2 billion represented payments to policyholders and their beneficiaries, \$1.3 billion increases in actuarial reserves, and \$1.2 billion increases in the liability for segregated fund contracts.

Earnings and Surplus

Operating income for the year stood at \$463 million, up from \$370 million in 1985.

Dividends to policyholders amounted to \$279 million, up 23 percent over 1985.

Net income for 1986, after dividends to policyholders, amounted to \$184 million, an increase of 28 percent.

Review of Operations

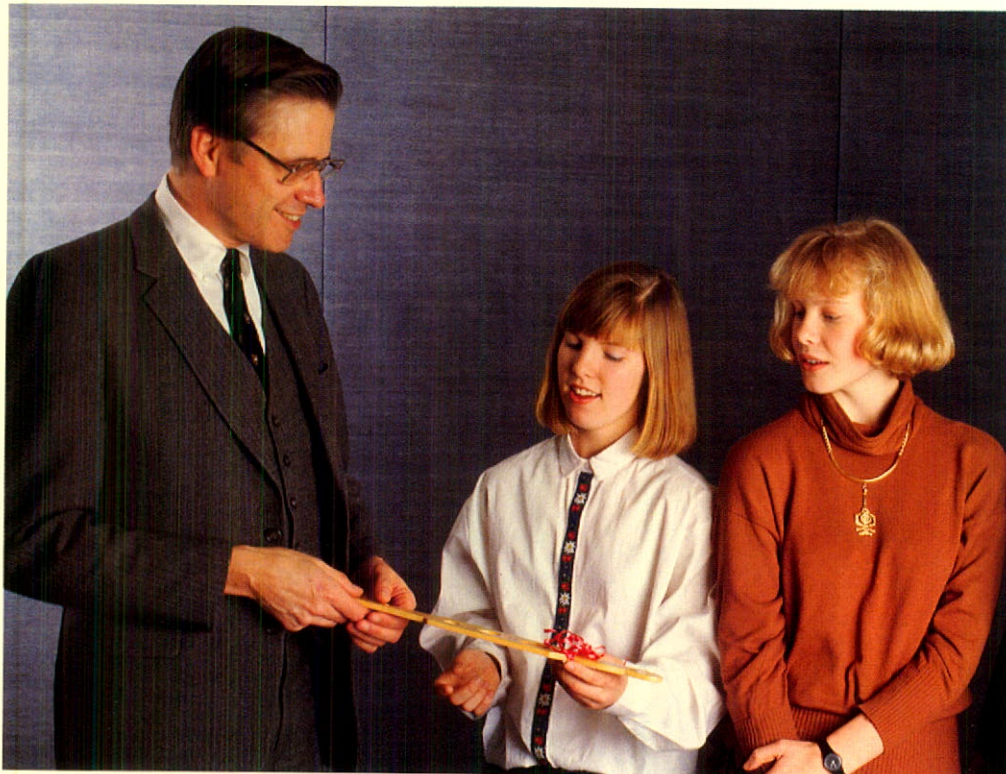
Appropriated surplus increased by 3 percent to \$662 million, while unappropriated surplus increased by 14 percent to \$1.3 billion. Total surplus stands now at almost \$2 billion, compared to \$1.8 billion at the end of 1985.

Increasing numbers of major U.S. life insurance companies are applying for a claims-paying rating from Standard and Poors, the internationally recognized New York-based rating service. During the year, Sun Life applied for such a rating. Based on Sun Life's strong financial position, management expertise, and investment policies and practices, Standard and Poors gave us their highest rating, AAA.

Developing a Professional Response

The changing conditions of our business have presented many new challenges and responsibilities to the people of Sun Life, from the Board of Directors to the employees and representatives working in their communities around the world.

As we strive to provide service of the highest quality to our clients, a priority has been skill training and professional development for management, staff and agents. New types of products and growing competition among providers of financial services means a high level of professionalism can give our people a competitive edge. With the present growth and success



Sun Life management actively supports staff volunteer efforts in such programs as Junior Achievement, which teaches high school students business and entrepreneurial skills. Two JA achievers, Lisa Norman (centre) and Heather Mackay, explain the production process of their company's product to Sun Life President, John Gardner.

of the life insurance business, increasing numbers of people are joining the industry. This influx requires an increased commitment to entry-level training and development.

Computer systems are essential in maintaining efficient services to our clients. Staff and representatives in both our individual and group product areas apply the latest systems technology, ensuring that our clients are provided with the support they need to make critical decisions affecting their own future financial well-being and that of their dependents.

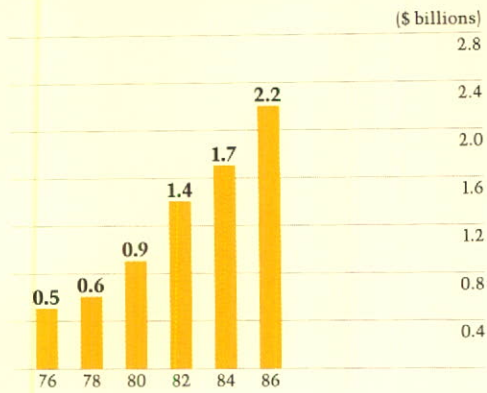
If Sun Life is to survive and prosper through the changing times ahead, it is important that our clients continue to have confidence in our ability to meet their needs for financial services with a high standard of service. Sun Life is fortunate in having the range of skills and the breadth of expertise that exists throughout our organization. Investment in the development of our people and in our systems support network will continue to be a high priority for the foreseeable future.



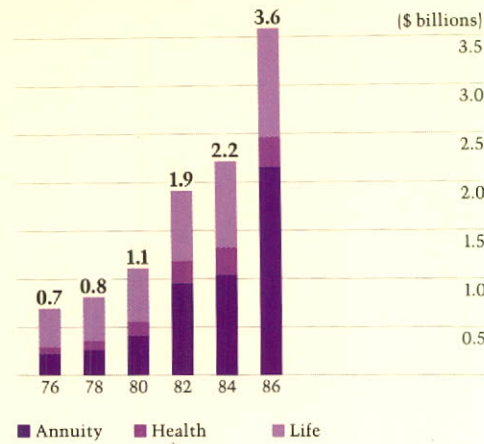
Many of Sun Life's staff and representatives, at all levels of the Company, assist a wide variety of non-profit organizations. John D. McNeil (third from left) Deputy Chairman, and 1986 Areawide Campaign Chairman for the United Way, attends an early-morning breakfast meeting with United Way representatives Anne Golden (Campaign Director), Gordon Cressy (President), and David Armour (Director, Areawide).

Company Growth and Size

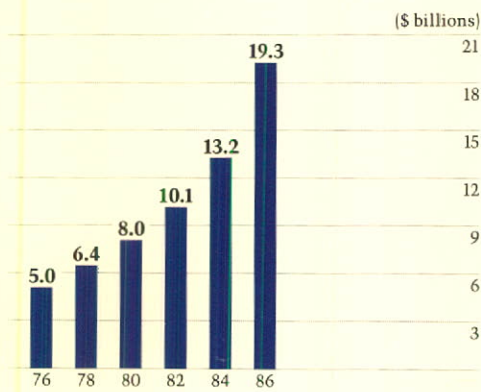
Payments to Policyholders



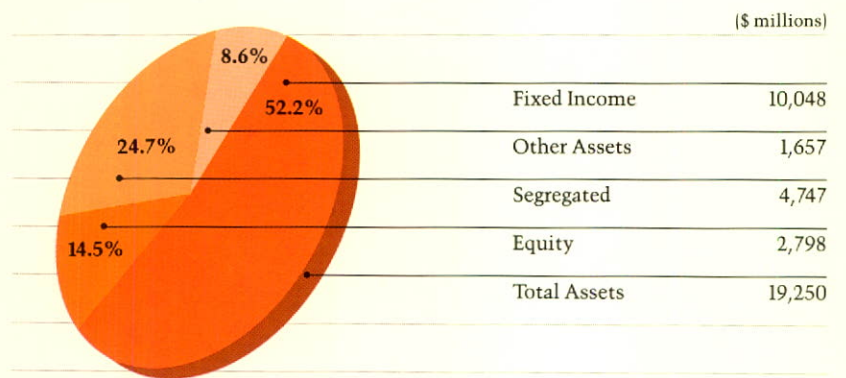
Premium Income



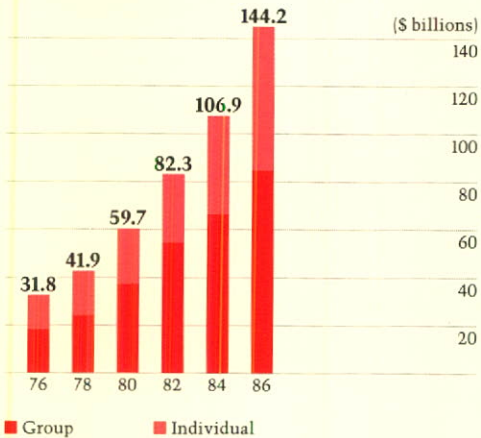
Assets



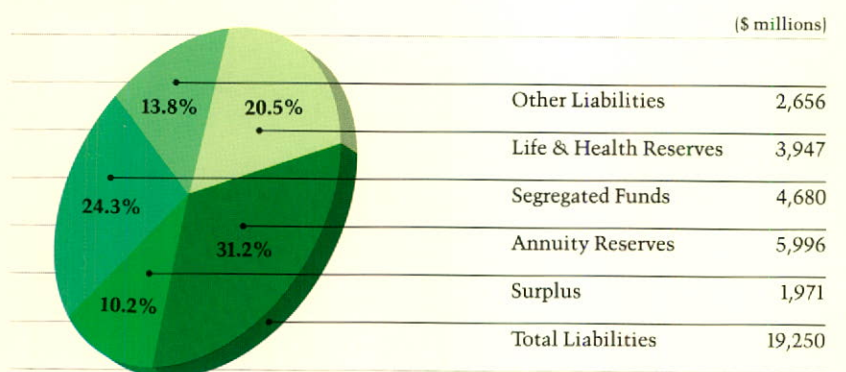
Composition of Assets



Life Insurance In Force*



Liabilities and Surplus



* Figures are for life insurance only. They do not include annuities or health insurance.

Lower interest rates, a strong stock market and the growing North American economy have led Canadian investors and savers to consider mutual funds.

In response to the growing demand for quality investment opportunities, Sun Life has established new subsidiary companies to manage and distribute mutual funds. Planning for this new venture was undertaken during 1986 in anticipation of a formal launch in mid-1987, dependent upon regulatory approval. Our agents and mutual fund staff have embarked on an extensive training program which includes courses through the Investment Funds Institute of Canada. Agents must be trained and licensed before they can offer mutual funds to the Canadian public.

Two companies have been formed. The first, Spectrum, is responsible for investment of the fund assets and unit-holder communication and reporting. The second, Sunetco, will look after the distribution of our funds through licensed Sun Life managers and agents.

Our new mutual fund products will encompass at least four funds: money market, bond, Canadian common stocks and balanced funds. There will be no front-end load, though a competitive management fee will be charged. Interfund transfers will give unit-holders investment flexibility. Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF) programs will be important parts of our mutual fund offering.

Human Resources

Last year, we conducted a survey to identify the additional skills needed by Sun Life employees. As a result of the findings, some training programs were strengthened and new ones developed for our employees, including those in our field offices. Many of these programs have a strong customer service orientation, focusing on communications face-to-face, over the telephone, and in writing. Other programs help employees develop their supervision, presentation, communication, and career-planning skills. Further initiatives were taken in the training of new agents. These steps complement the ongoing training provided by branch managers and unit managers.

During the year, the Sun Life Health Awareness Program for Employees (SHAPE) was launched to promote greater appreciation of health and fitness on the part of all employees across Canada. Under the program, employees are encouraged to have their fitness assessed and to keep fit through participation in various courses. Information is distributed through SHAPE in pamphlets, on posters and in videos.

Products and Services

Individual Life Insurance

Our newest whole life insurance product, Interestmaster, introduced in 1986, offers policyholders the best of a whole life policy, with its guaranteed premiums and coverage, and cash value growth based on current market interest rates. Interestmaster also provides policyholders with an annual statement detailing the amounts credited to and deducted from the policy.

Our expanded and modernized line of whole life insurance products has been widely accepted by consumers and represented more than 60 percent of our new sales in 1986. These policies guarantee an amount of money upon the death of the policyholder, as well

Many of Sun Life's group clients have a long-standing relationship with us. Monenco Consultants Ltd., an international consulting engineering company headquartered in Montreal, recently celebrated its 60th

anniversary as a client of Sun Life. Allan D. Johnston, Director, Sun Life Group National Accounts (right) discusses Monenco's benefits plan with their Vice-President, John R. Michael.



as a cash value available if required for payment of premiums. These whole life products are distinct from our term life insurance products which provide a guaranteed amount of money only if the policyholder dies during the term of the policy.

Group Life and Health Insurance

Sun Life remains a leader in providing life and health insurance protection for groups of Canadians. During 1986, the Company sold in Canada more than \$6 billion of new group life insurance coverage, bringing Sun Life's total group life insurance in force in Canada to nearly \$45 billion.

Priorities for 1986 for group insurance were to sustain a profitable operation while increasing market share measured by premium income. To achieve these objectives, we updated our products and services, concentrated on the use of technology and enhanced our service capability. We also strengthened our marketing and sales activities by improving our market research and increasing the size of our sales force.

Service to group clients is under constant review and improvement. The result: new products and new systems. The Surviving Dependent Insurance Benefit Provision can now allow dependents to continue to receive Sun Life coverages (dependent life, medicare supplement, and dental insurance) for two years following the death of a group plan member.

We also introduced a simplified policy form and a computerized policy writing system. In 1986, much of the underwriting responsibility for small- and medium-sized groups was transferred to our group branches. Working with computers, our field representatives can make underwriting decisions and offer clients a cost quotation within hours.

Both employers and employees are increasingly concerned with health and well-being, realizing that a healthy lifestyle leads to better productivity and a more satisfying life. In recognition of this, the range of Sun Life group benefits plans was further enhanced during 1986 with a new program that promotes good health. The "Wellness" program offered by Sun Life provides financial support to employees who seek counselling to improve their lifestyles. Four different programs are currently offered, each aimed at improving the general health of the individual employee. These programs assist employees to stop smoking, to lose weight, to overcome alcohol or drug dependency and to obtain nutritional counselling. The long-term benefit for both employers and employees will be a healthier and more satisfied workforce.

Two years ago, Sun Life developed a new software program – CHESS – for group health and dental policies to streamline the handling of claims and to provide additional services to our policyholders and claimants. In the past year, through further improvements to the CHESS program, our claims processing time was again reduced. Our claims staff across the country are recognized as industry leaders in providing service.

To enhance our service capability, during 1986 we established a Client Information Centre for group policyholders, accessible through toll-free numbers. We also began to offer toll-free telephone access to all our claims offices, a step that is proving to be a valuable service to clients.

Individual Annuities

In 1986, premium income from the sales of individual retirement income products in Canada increased 26 per cent over the previous year. Sun Life offers accumulation annuity plans for individuals, including our very successful Superflex, a deferred annuity designed to accumulate premiums. Premiums whose amount can be varied by the contract-holder can be directed into any of a number of accounts to earn interest. Account transfers and withdrawals can also be made. Ultimately, the policy value of a Superflex plan can convert to a payout annuity.

In 1987, we will introduce a newly revised RRIF. This vehicle invests RRSP money at retirement (usually between ages 60 and 71); funds are distributed each year until age 90, at which time the funds are exhausted.

Sources of Premium Income (Canada)

in thousands of Canadian dollars	1986	1985	1984
Individual products			
Life insurance	\$ 215,451	\$ 197,455	\$ 185,983
Annuities	318,369	279,036	204,332
Health insurance	402	428	456
Total premiums	534,222	476,919	390,771
Group products			
Life insurance	174,372	153,136	142,000
Pensions	355,931	662,131	209,286
Health insurance	220,290	198,326	204,683
Total premiums	750,593	1,013,593	555,969

Sun Life also offers single premium annuities, whose sale generated premiums of more than \$90 million in Canada in 1986.

Sun Fund is a segregated fund designed to help individuals accumulate capital over the long term. It meets the needs of those who want to invest in Canadian equities, but do not have knowledge or experience in this area, or the time to manage their own portfolio. Since 1969, Sun Fund has offered both large and small investors the

Group Pensions

In the fall of 1986, Sun Life introduced Horizon, a new employee pension and savings vehicle. Horizon is available from life insurance agents trained to offer personalized advice to employers who want to provide adequate retirement income for their employees. Horizon allows an employer to offer either a pension plan or a group RRSP to employees. An employer has the flexibility to offer investment options such as a short-term deposit fund, a five-year guaranteed fund and a diversified fund, to be selected by employees individually. Employees can redirect their contributions and transfer their account balance to a different fund twice a year. Designed for small businesses, that today form a growing part of the Canadian economy, the plan has no fees and allows employees to take their pension funds with them if they leave.

Sun Life's Canadian Pension Division manages over \$3 billion of retirement funds in employers' and individual retirement plans. During the year, the Company developed a client record-keeping system that integrates employee records, provides daily updates and automates cheque writing.

Sun Life's large corporate clients often require a great deal of information on their plans as quickly as possible. To meet these needs, the Pension Division upgraded to a direct on-line computer service this year to allow clients direct access to information about their particular plans. In 1980, most of our communications with our clients were on paper. Now more than 75 percent of our clients' deposits are handled on-line. These improvements help us to respond quickly and effectively to clients' enquiries.



John Lane, Senior Vice-President and General Manager for Canada (second from left) discusses a Company computer systems study with (left to right) Don Stewart, Vice-President, Pensions, Lee Watchorn, Vice-President, Group Insurance, and Bill Pearo, Vice-President, Individual Insurance.

benefits of investment management by well-respected, trusted professionals who have managed some of the largest investment portfolios in Canada for many years. Sun Fund's performance has justified the confidence of those who have invested in it. The unit value has increased by 78 percent in the last five years alone.

Sun Life has been selling whole life insurance products in the Philippines and surrounding countries since the 1890s. Our Far East Division currently comprises two regional offices, supported by two service centres located in Hong Kong and Manila, 11 new business branch offices and two unit offices. The product line in the Far East consists of three traditional whole life plans, a 20-year endowment plan and a five-year term plan. Our Sun Permanent Life plan, with lower premiums, is the most popular of our whole life products.

Priority has been given to decentralizing underwriting and policy issue operations so that the entire Far East Division will be better able to provide immediate service to clients. The transfer of underwriting and administrative services to the Far East requires a substantial commitment to training local management. In addition to meeting our clients' needs more effectively, this approach will be more cost efficient to the Company.

In February 1986, for the first time in the history of the Far East Division, we had the computer systems ability to

issue a life insurance policy in Manila. Policies had previously been approved and issued in Canada. In October 1986, an additional computer connection was established between Toronto and Hong Kong to enable policies to be issued in Hong Kong.

As a result of political events in the Philippines during 1986, our 300 agents faced a difficult business climate there. Following the change in government, the political environment attained a measure of stability. As the year progressed, consumer confidence in the economy returned and our sales activity improved. For the year, annualized premiums for new individual life insurance received from the Far East Division totalled \$7.7 million, down only slightly from the outstanding results in 1985.



In 1986, Esther Tan was appointed Manager of our Evergreen New Business Office in Metro Manila, and became the 1986 Manager's Trophy winner for the Far East. Esther, a leading agent in the Far East Division for the past four years, discusses Sun Life's individual product line with her client, Jovino Campos.

Jean McIntyre of our British operations and a leading Sun Life agent worldwide, meets with one of her clients, Lord Brocket. Lord Brocket is a

successful business entrepreneur who runs an Executive Conference Centre at his privately-owned residence, Brocket Hall.



Sun Life offers an extensive range of plans covering such needs as family income, retirement income, unit-linked investment, house purchase, employee benefit schemes and annuities in the United Kingdom. Sun Life representatives are trained to advise the public about any of these services.

Sun Life has sponsored a number of consumer attitude surveys in the last few years to keep well-informed of consumer concerns regarding their financial well-being. The latest of these, conducted in May 1986, revealed that while consumers are generally satisfied with the information they receive when they buy life assurance, considerable improvement is possible. We are establishing a full client care program in the belief that an improved flow of information will be a primary ingredient of success in our response to a more demanding market.

New Unit Trust Management Subsidiary

In order to transact unit trust business, we established a new subsidiary, Sun Life of Canada Unit Managers Limited, and launched two unit trusts – an income trust and a growth trust – both of which invest in the United Kingdom market. The launch, conducted through direct mail to policyholders and through newspaper advertising, was most successful – a tribute to the high standing Sun Life holds with policyholders and the public in general.

Products and Services

Individual Life Insurance

During 1986, the Company made several modifications in its individual insurance product line in Great Britain and Ireland to reach a wider range of clients. One such product is Life Plus, a low-cost whole life plan, with premiums that are paid for only a selected period. Life Plus provides a guaranteed minimum death benefit in excess of the participating sum assured. We also introduced a new house purchase plan, Low Cost Endowment, which is an improved policy with lower premiums to cover a particular mortgage.

Endowment policies represented about half our new individual premium income; unit-linked savings policies another third; and life and term policies the balance.

A significant undertaking during the year was the introduction of a direct debit system whereby customers have the opportunity to pay premiums automatically. The previous method, whereby clients could arrange for their bank to send their premium directly to Sun Life, unfortunately often resulted in errors arising from premium and timing changes. The direct debit system ensures that the correct premium is deducted at the right time, and is being used by a large proportion of new policyholders.

Group Life and Health Insurance

Sun Life's group insurance operations in Great Britain centre on group life and permanent health insurance products sold through a broker / consultant distribution system. Group life insurance in force grew during 1986 by 19 percent to £10,405 million, increasing our market share and confirming our position as the second largest provider of group insurance coverage to employees in Britain. The permanent health insurance plan which was introduced in mid-1985 has been well received by companies with 20 or more employees which want to provide long-term disability benefits to their employees.

Management Restructuring

British marketing operations during 1986 were reorganized into three main areas: sales and service, product marketing and planning and development. The new structure will allow for better coordination of the development of service to clients, new product initiatives, and the British National Office's overall planning and strategy for providing financial services in the U.K. and Irish markets.

National Headquarters Move

A major challenge during 1986 was the preparation for the move from London into our new headquarters office in Basingstoke, Hampshire in May 1987. Not only did we need to ensure that the level of customer service was maintained, we also had to address the relocation needs of employees. While many of our staff have decided to move to Basingstoke, some have decided to take early retirement and others have decided to remain in the London area. In each case, we make counselling and assistance available to help employees adjust to the change in head office location. To fill the gaps, we have been actively recruiting in the Basingstoke area.

Sources of Premium Income (Great Britain & Ireland)

in thousands of Canadian dollars	1986	1985	1984
Individual products			
Life insurance	\$ 369,314	\$ 279,622	\$ 263,303
Annuities	31,451	23,386	18,021
Health insurance	—	—	—
Total premiums	400,765	303,008	281,324
Group products			
Life insurance	58,102	46,406	44,794
Pensions	48,877	31,396	23,178
Health insurance	687	404	316
Total premiums	107,666	78,206	68,288

A worldwide diversified manufacturing company, 3M has a long-standing relationship with Sun Life's pension division. 3M's Rajbir S. Kang, Senior Pension Fund Analyst, James A. Bowditch, Manager, Pension Fund Research, and Jan L. Yeomans, Manager, Benefit Fund

Investments, consult with Sun Life's Gerald C. Hume, Marketing Officer, Group Pensions (centre left) in the "Hall of Products" at 3M's Maplewood, Minnesota headquarters. Sun Life manages a portfolio of private placement bonds and mortgages for 3M.

Sun Life and its U.S. subsidiaries began marketing their products and services under the name Sun Financial Group in 1986. This umbrella name conveys the size and scope of Sun Life operations in the United States and its position as a major provider of a wide range of financial products and services. Sun Financial Group is now used to identify all sales offices and representatives and appears on all promotional materials issued by the Company. Additional



uses of the Sun Financial Group name are being sought to link acquired companies more closely to the Sun Life organization.

Diversification in the United States began in 1982 with the purchase of Massachusetts Financial Services Company, one of the oldest and largest mutual fund organizations in the country. The process continued in 1986 with two acquisitions that give us added capabilities.

With the purchase of the New London Trust Company, Sun Life acquired valuable trust and banking powers that can be used to advantage by Sun Financial Group companies. In addition, this "non-bank" bank will continue its profitable service to its existing customers.

The acquisition of Massachusetts Casualty Insurance Company links Sun Life with a high quality provider of disability income insurance – a product for which the U.S. market is expanding. The network of insurance companies and independent insurance brokers currently selling MCI's products provides a valuable opportunity to expand the distribution of Sun Financial Group products.

In April 1986, Sun Life increased dividends on participating policies to record levels with the introduction of the Operation Equity program. About 75 percent of our participating policyholders own unloaned policies. They receive the maximum dividend possible under the Operation Equity dividend scale. On many policies in force for ten years or more, the change increased dividends more than 30 percent compared with the scale before the program. Since policies with loans diminish the pool of funds available for investment, they no longer receive the same dividends as policies without loans.

Human Resources

Aware that only productive employees can provide the service our customers have come to expect, Sun Life has taken a number of steps to provide benefit plans and a work environment sensitive to the needs of employees. The Employee Recognition Award program rewards employees for outstanding contributions above and beyond normal job requirements, and the Employee Assistance Program provides professional counselling services for employees coping with difficult job or personal situations. Another program, Sun Lifestyles, offers physical fitness opportunities and nutrition courses.

Products and Services

Individual Life and Health Insurance

Sales of individual life products were strong in 1986, but the mix of business continued to shift as interest rates declined. Interest-sensitive products, such as Lifemaster II and Interestmaster, continued to account for more than half the premium income generated by individual life products; nonetheless, consumer interest in traditional products increased during the year.

Sources of Premium Income (United States)

in thousands of Canadian dollars	1986	1985	1984
Individual products			
Life insurance	\$ 221,742	\$ 209,210	\$ 159,694
Annuities	1,024,754	572,207	439,837
Health insurance	201	219	221
Total premiums	1,246,697	781,636	599,752
Group products			
Life insurance	59,321	54,466	46,196
Pensions	359,293	170,407	129,673
Health insurance	79,126	70,057	66,807
Total premiums	497,740	294,930	242,676

A single premium variable life policy, Compass Life, was introduced in 1986. It addresses the four key aspects of financial planning – protection, savings, asset growth and retirement income – as well as growth potential without current income taxes. Six investment options are offered.

Sales of term insurance increased dramatically in 1986 following introduction of a completely revised portfolio of products. Sold under the name UltraTerm, these products offer

staffed by experienced service representatives, to deal with the many customer calls received about group coverage. The Center has a toll-free number which can be called from anywhere in the continental United States.

Annuities and Group Pensions

Sun Life offers two series of accumulation annuity plans in the United States, Horizon and Compass, which are sold by both Sun Life agents and the MFS broker network. The introduction of these new plans in recent years has brought strong response from consumers. Annuity premium income this year from Horizon and Compass plans increased by 66 percent over last year and by year-end Compass had a substantial part of the U.S. market for individual variable annuities.

The newest addition to the Compass series of fixed and variable annuities is Compass G, a group annuity for qualified retirement plans and non-qualified employee savings programs for companies with as few as one employee.

Group pension sales topped \$318 million, more than 270 percent over 1985 sales, bringing group pension reserves and deposit fund balances to more than \$1 billion in the United States. Sales of single premium group annuities (SPGA) in 1986 were \$271 million and sales of guaranteed investment contracts (GICs) totalled \$47 million.

Massachusetts Financial Services Company

Thirteen new products and a restructured marketing effort helped Massachusetts Financial Services (MFS) reach new highs in 1986 for assets under management, mutual fund and annuity sales, and number of investors served. These steps were taken to ensure that MFS would retain its ability to meet the investment and service needs of both investors and their financial advisers during a period of exceptional growth for the Company and the mutual fund industry.



John S. Cleary (left), Vice-President of Kidder, Peabody & Co. Inc., discusses Sun Life's popular Compass II product with one of his clients, Charles Rowley, Jr. The Compass II product is one of the Compass fixed/variable annuities developed jointly by MFS and Sun Life (U.S.). It has achieved over \$1.5 billion in sales since it was launched in 1982.

highly competitive rates, a wide choice of coverage, conversion privileges with discounts, and optional benefits.

Group Life and Health Insurance

Sales of group life and group health insurance increased by 32 percent and 54 percent respectively in 1986. Anticipating this and future growth, steps were taken to meet increased service demands from group plan administrators, employers and employees. Sun Life established a Group Service Center within the headquarters organization,

Record Growth

The year saw total assets under management advance to \$18.8 billion from \$13.4 billion at the close of 1985. This figure represents \$16.7 billion of mutual fund and other managed fund assets as well as \$2.1 billion of separate account assets managed on behalf of Sun Life (U.S.) and Sun Life (N.Y.). Mutual fund and annuity assets rose to \$14.8 billion from \$9.7 billion, and the value of accounts managed by the Investment Counsel Division grew to \$4.0 billion from \$3.7 billion. The number of investors served increased during the year to 708,491 from 557,559.

New Products

In January 1986, MFS introduced a high-yield U.S. Government securities fund that had assets of U.S. \$731 million by year-end, followed in May by America's first fund to manage a combination of industry stock portfolios. The fund, which concentrates investments in up to five out of a possible 15 industry sectors, was valued at U.S. \$148 million on December 31, 1986.

In November, MFS's first closed-end fund was introduced. An underwriting involving more than 100 brokerage firms raised U.S. \$329 million, making it the seventh largest initial public

offering in the history of the New York Stock Exchange.

Late in December, the Securities and Exchange Commission approved the sale of the MFS Lifetime Investment Program, the first complete family of mutual funds with a contingent deferred sales charge instead of a front-end load. This provides for immediate investment of 100 percent of the investor's money.

Restructured Marketing Effort

The MFS Sales Division was restructured in September to strengthen marketing efforts. Products were divided into two categories – mutual funds and insurance products – and five groups of wholesalers were created to focus on different distribution channels. There are now two mutual fund and two insurance products wholesale groups. In each case, one group works exclusively with stockbrokers and the other only with securities-licensed life insurance agents. The fifth group offers both product lines to the banking industry. The number of wholesalers increased from 38 at the close of 1985 to 51 at the end of 1986.



Dana Demets helps an MFS Fund shareholder in the telephone enquiry section of Investors' Services. A vital area in the Boston office of the Massachusetts Financial Service Center, operators handle 1,500 telephone enquiries a day.

The Board of Directors

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Principal Officers in Corporate Office

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<p>Robert E. McGinness, Vice-President and Counsel</p>
<p>A.R. (Tim) McMurrich, F.S.A. Vice-President, Individual Products and Services</p>
<p>David B. Wray, Vice-President, Investments</p>

* Members of the Senior Advisory Council.

Consolidated Balance Sheet

in thousands of Canadian dollars

December 31	1986	1985
Assets		
Bonds	\$ 6,551,282	\$ 5,777,340
Mortgages	3,497,172	2,687,629
Stocks	1,579,130	1,302,711
Real estate	1,218,871	1,137,303
Policy loans	654,441	670,324
Cash	65,218	69,738
Other invested assets	113,277	142,374
Investment income due and accrued	237,913	218,812
Outstanding premiums	64,124	56,185
Other assets	522,226	334,000
Segregated fund assets	4,746,551	3,563,111
	19,250,205	15,959,527
Liabilities and Surplus		
Actuarial liabilities:		
Reserves for unmaturing obligations	9,942,731	8,654,033
Provision for dividends	285,072	248,860
Provision for experience refunds	37,396	37,025
Provision for unreported claims	67,574	58,243
Reserve for Company employee and retiree uninsured benefits	85,018	79,615
	10,417,791	9,077,776
Liability for segregated fund contracts	4,679,553	3,522,439
Amounts on deposit	868,811	706,586
Policy benefits in process of payment	79,038	72,151
Accrued expenses	61,119	52,788
Deferred net realized gains	539,115	274,763
Encumbrances on real estate	95,699	101,854
Other liabilities	538,122	355,670
Total liabilities	17,279,248	14,164,027
Appropriated surplus	662,000	645,000
Surplus	1,308,957	1,150,500
	19,250,205	15,959,527

Consolidated Statement of Operations

in thousands of Canadian dollars

Year ended December 31	1986	1985
Revenue		
Premiums		
Life insurance	\$ 1,131,609	\$ 972,026
Health insurance	300,894	269,526
Annuities	2,138,729	1,741,781
	<u>3,571,232</u>	<u>2,983,333</u>
Investment income	1,419,492	1,224,351
Investment income on segregated fund assets	413,568	311,222
Net market value gain on segregated fund assets	25,219	236,131
Other income	125,396	68,292
	<u>5,554,907</u>	<u>4,823,329</u>
Expenditure		
Payments to policyholders and their beneficiaries:		
Death and disability benefits	383,950	319,421
Maturities and surrender values	909,346	987,876
Annuity payments	309,096	256,230
Interest on claims and deposits	75,493	67,131
Experience rating refunds	18,563	14,710
Health benefits	252,969	218,695
	<u>1,949,417</u>	<u>1,864,063</u>
Increase in actuarial reserves	1,298,904	1,031,117
Increase in liability for segregated fund contracts	1,155,831	1,022,581
Commissions	187,057	131,112
Operating expenses and taxes	500,490	404,126
	<u>5,091,699</u>	<u>4,452,999</u>
Operating Income	463,208	370,330
Policyholder dividends	278,824	226,173
Net Income	184,384	144,157

Consolidated Statements of Surplus and Appropriated Surplus

in thousands of Canadian dollars

Year ended December 31	1986	1985
Consolidated Statement of Surplus		
Balance, January 1	\$ 1,150,500	\$ 997,011
Net income	184,384	144,157
	1,334,884	1,141,168
Net adjustment of assets and liabilities due to changes in exchange rates	(8,927)	39,332
	1,325,957	1,180,500
Transferred to appropriated surplus	(17,000)	(30,000)
Balance, December 31	1,308,957	1,150,500

Consolidated Statement of Appropriated Surplus	Balance Jan. 1, 1985	1985 Appropri- ations	Balance Jan. 1, 1986	1986 Appropri- ations	Balance Dec. 31, 1986
Mandatory Surplus					
Appropriations:					
Canadian statutory investment valuation and currency reserves	\$ 32,007	\$ (7,145)	\$ 24,862	\$ 10,286	\$ 35,148
Canadian statutory valuation reserve for non-admitted assets	62,914	60,403	123,317	23,360	146,677
Canadian statutory deficiency or solvency requirements	—	—	—	81,919	81,919
Foreign statutory deficiency or solvency requirements	54,703	(31,902)	22,801	(727)	22,074
	149,624	21,356	170,980	114,838	285,818
Voluntary Surplus					
Appropriations	465,376	8,644	474,020	(97,838)	376,182
	615,000	30,000	645,000	17,000	662,000

Consolidated Statement of Cash Flow

in thousands of Canadian dollars

Year ended December 31	1986	1985
Cash Provided		
Receipts		
Insurance and annuity premiums	\$ 3,563,632	\$ 2,979,349
Net investment income	1,468,761	1,252,346
Other income	125,722	68,374
	<u>5,158,115</u>	<u>4,300,069</u>
Payments		
Policyholder benefits	1,858,548	1,788,089
Policyholder dividends	243,044	210,916
Insurance expenses and taxes	697,179	565,072
Net change in amounts on deposit	883	11,571
	<u>2,799,654</u>	<u>2,575,648</u>
Net cash from operations	2,358,461	1,724,421
Net change in borrowed money	—	36,000
Total Cash Provided	<u>2,358,461</u>	<u>1,760,421</u>
Cash Applied		
Net change in long-term investments	2,143,104	1,672,880
Acquisition of subsidiary company	19,312	—
Net change in policy loans	(14,311)	(19,913)
Net change in miscellaneous assets	(29,924)	23,828
Net change in cash and short-term securities	240,280	83,626
Total Cash Applied	<u>2,358,461</u>	<u>1,760,421</u>

1. Accounting Principles

The financial statements have been prepared in accordance with the accounting principles prescribed or permitted by the Federal Department of Insurance of Canada. The more significant principles followed by the Company are set out below:

(a) *Securities Investments*

Bonds, mortgages and stocks are carried at values prescribed by the Canadian and British Insurance Companies Act.

Life insurance fund bonds and mortgages are valued at amortized cost. Life insurance fund stocks are valued at cost adjusted for the aggregate amount of unrealized gains and losses reflected in income since December 31, 1977. Such gains and losses are brought into income annually at the rate of 15% of the excess or deficiency of market over previous adjusted cost.

Realized gains and losses on sales of life insurance fund bonds and mortgages are deferred and brought into income, on a straight line basis, over the remaining period to maturity (maximum 20 years). Realized gains and losses on sales of life insurance fund stocks are deferred and brought into income annually at the rate of 15% of the unamortized balance.

Health insurance fund bonds and mortgages are valued at amortized cost and stocks are valued at cost. Gains and losses on sales of health insurance fund investments are included in income when realized.

Certain securities, which had been written down from cost or amortized values prior to 1977, are treated as if purchased on December 31, 1976 at their book values on that date.

(b) *Real Estate*

In 1986, the Company adopted revised accounting principles for life insurance fund real estate investments as permitted by the Canadian Department of Insurance.

Real estate is valued at cost adjusted for the amount of unrealized gains and losses reflected in income, calculated at the rate of 10% of the excess or defi-

ciency of market over cost. For this purpose, year-end market values are established for each property on the basis of 95% of appraised values and properties owned at December 31, 1985 are treated as if purchased at their book values on that date.

Realized gains and losses on sales are deferred and brought into income annually at the rate of 10% of the unamortized balance.

Appraised values were obtained for the entire real estate portfolio during 1986; subsequently, property appraisals will be obtained no less frequently than once every three years.

In respect of individual properties where a market deficiency exists, the amount of such deficiencies remaining, after the annual amortization adjustment to income, is covered by an appropriation of surplus.

In 1985 and prior years, real estate was valued at depreciated cost, with gains and losses on sales included in income when realized. Prospective application of the accounting change was required by the Canadian Department of Insurance; the effect was to increase 1986 net income by approximately \$29 million.

(c) *Subsidiaries*

Subsidiary companies are accounted for on a consolidated basis. Subsidiary company assets are carried at values determined by generally accepted accounting principles, except for securities investments of foreign life insurance subsidiaries which are carried at values prescribed by the regulatory authorities in their respective countries.

(d) *Segregated Funds*

Segregated fund assets are carried at market values.

(e) *Acquisition Costs*

Costs of acquiring new insurance are charged against income as they are incurred.

(f) *Translation of Foreign Currencies*

Revenue and expenditure in foreign currencies are translated into Canadian dollars at book rates approximating the actual rates of exchange at the beginning of the year. Assets and liabilities are carried at book rates approximating the actual rates of exchange at the end of the year. The net adjustment of asset and liability values resulting from changes

in the book rates of exchange is reported in the Statement of Surplus in the year the changes are made.

(g) Income Taxes

The Company follows the taxes payable method.

2. Investment Income

Investment income consists primarily of interest and dividends, together with net rental income, net realized gains and losses on sales of health fund investments and subsidiary company investments and the amortization of other current and deferred gains and losses as described in Notes 1(a) and (b), net of investment expenses and taxes.

Net rental income amounted to \$97.6 million (\$78.2 million in 1985) after depreciation and expenses of \$62.2 million (\$58.7 million in 1985) and taxes of \$24.6 million (\$23.7 million in 1985).

Net realized gains on sales of health fund investments and subsidiary company investments amounted to \$11.9 million (\$7.7 million in 1985).

Amortization of current and deferred realized gains and losses on bonds, mortgages and stocks contributed \$87.2 million (\$51.7 million in 1985).

Amortization of unrealized gains and losses on stocks contributed \$82.2 million (\$71.5 million in 1985).

Amortization of unrealized and deferred realized gains and losses on real estate contributed \$41.2 million. In 1985, net realized gains on sales of real estate amounted to \$22.1 million.

Investment expenses and taxes amounted to \$32.7 million (\$29.5 million in 1985).

3. Actuarial Liabilities

(a) Reserves for unmatured obligations shown on the Consolidated Balance Sheet represent the amount which, together with future premiums and investment income, will provide for future benefits to policyholders, certificate holders or to their beneficiaries. In accordance with the requirements of the Canadian and British Insurance Companies Act, the computation of these actuarial liabilities makes provision for dividends payable in future years and for modest adverse fluctua-

tions in future experience. Provision for more severe adverse fluctuations is made through appropriations of surplus.

(b) The reserves included for the unmatured obligations of the Company's branches and subsidiaries operating in foreign jurisdictions have been valued in accordance with Canadian requirements. Any resulting foreign statutory deficiency or solvency requirements are held as mandatory appropriations of surplus, as are certain other Canadian statutory solvency safeguards.

4. Company Pension Plans

Pension provisions for employees and agents of the Company and most subsidiaries are made primarily under plans insured with the Company. Included in the reserves for unmatured obligations are reserves of \$421 million (\$371 million in 1985) held in respect of these plans.

In addition, provision is made for certain employee and retiree uninsured benefits. Reserves held by the Company in respect of these obligations amounted to \$85 million (\$79.6 million in 1985).

In aggregate, these reserves represent the funds required to meet the accrued benefit obligations of the Company.

The total contributions made by the Company and its subsidiaries in respect of all pension arrangements amounted to \$19.2 million (\$23.7 million in 1985).

5. Acquisitions

(a) On December 22, 1986 Sun Life Assurance Company of Canada (U.S.), the Company's United States subsidiary, acquired for U.S.\$14.9 million all of the outstanding shares of The New London Trust Company, New Hampshire, a state chartered bank.

(b) On December 16, 1986 the Company agreed, subject to certain conditions, to acquire for U.S.\$47.25 million all of the outstanding shares of Massachusetts Casualty Insurance Company, a life insurance company specializing in the individual disability insurance business in the United States. This transaction was subsequently closed on January 30, 1987, through the Company's United States subsidiary, Sun Life Assurance Company of Canada (U.S.).

I have made the valuation of the Actuarial liabilities of the Sun Life Assurance Company of Canada for its Consolidated Balance Sheet at December 31, 1986 and its other consolidated financial statements for the year then ended. I have relied on the valuations made by the actuaries of subsidiary companies.

I certify that, in my opinion:

- (i) the valuation conforms to the Recommendations for Insurance Company Financial Reporting of the Canadian Institute of Actuaries; and
- (ii) the Actuarial liabilities make proper provision for future payments under the Company's policies and have been properly reflected in the consolidated financial statements.

Appropriations of surplus have been made to provide against adverse fluctuations in experience significantly greater than those assumed in computing the Actuarial liabilities.

Toronto, January 30, 1987



D.L. Gauer, F.S.A., F.C.I.A.
Senior Vice-President and Chief Actuary

The Participating Policyholders,
Sun Life Assurance Company
of Canada:

We have examined the Consolidated Balance Sheet of Sun Life Assurance Company of Canada as at December 31, 1986 and the Consolidated Statements of Operations, Surplus, Appropriated Surplus and Cash Flow for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

We have relied on the certificate of the Company's Valuation Actuary as to the valuation of the Actuarial liabilities.

In our opinion, based on our examination and the certificate of the Company's Valuation Actuary, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1986 and the results of its operations and its cash flow for the year then ended in accordance with the accounting principles described in Note 1 to the financial statements applied, except for the change in real estate accounting as explained in Note 1(b), on a basis consistent with that of the preceding year.

Toronto, February 3, 1987



Touche Ross & Co.
Chartered Accountants

Parent Company

Sun Life Assurance Company of Canada issues life insurance policies and retirement savings plans for individuals and group products, including life and health insurance, as well as disability income and dental plans, and pension products.

Canada

Sun Life of Canada Investment Management Limited provides investment management services for major pension funds and for investment portfolios for sickness, accident and other welfare benefit plans.

Sun Life of Canada Benefit Management Limited provides administrative claims and actuarial services.

United States

Sun Financial Group

Sun Life Assurance Company of Canada (U.S.) issues individual variable and fixed annuity policies, single premium variable and fixed life insurance policies and group pension contracts.

Sun Benefit Services Company Inc. distributes disability income insurance and provides record-keeping claims and actuarial services for welfare and pension benefit plans.

Sun Investment Services Company distributes variable annuity policies, mutual funds and direct participation programs and also provides investment management and administrative services.

Sun Life Insurance and Annuity Company of New York distributes individual variable and fixed annuity contracts in the State of New York.

The New London Trust Company is a chartered bank making commercial and industrial loans to traditional business borrowers. Under its trust powers, it acts as trustee and custodian of individual and corporate pension plans.

United States (continued)

Massachusetts Casualty Insurance Company is an insurance company specializing in disability income insurance sold through general agency and distributor systems.

Massachusetts Financial Services Company provides investment management for mutual funds and client funds.

- *Massachusetts Financial Service Center Inc.* provides transfer agency and related services to the investment company clients of MFS.

- *Clarendon Insurance Agency Inc.* distributes life insurance and annuity products created by Sun Life (U.S.).

- *The Landmark Funds Broker-Dealer Services Inc.* provides administrative and distribution services to investment companies.

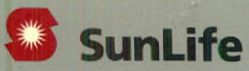
- *MFS Financial Services Inc.* serves as the principal underwriter for all the mutual funds in the MFS complex.

- *MFS Lifetime Advisers Inc.* provides the investment management for mutual funds in the new MFS lifetime investment program.

Great Britain and Ireland

Sun Life Assurance Company of Canada (U.K.) Limited sells investment-linked life insurance plans and personal pension policies.

Sun Life of Canada Unit Managers Limited manages two authorized unit trusts, known as Sun Life of Canada U.K. Growth Fund and Sun Life of Canada U.K. Income Fund.



Sun Life Annual Meeting:
May 5, 1987, 11 a.m.
Toronto, Ontario, Canada.

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