118th Annual Report 1988

Sun Life
Assurance Company
of Canada

Contents

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

Sun Life Assurance Company of Canada is one of the largest life insurance companies in North America operating from 290 offices located in Canada, the United States, Great Britain, Ireland, Hong Kong, the Philippines and Bermuda.

Commencing business in 1871 Sun Life is today a mutual life insurance company which together with its subsidiary companies provides a broad range of financial services for individuals, businesses, institutions and governments.

Our basic business is satisfying the overall financial security needs of our clients which we categorize as financial protection, asset accumulation, and financial advice.

Nearly 10,000 employees and full time sales representatives of Sun Life and its subsidiaries work to satisfy these financial needs through the provision of life, health, and disability insurance, pension and annuity contracts, mutual funds, investment management services, and other savings and investment instruments.

The services offered include fund management, administration services, financial planning, trusteeship and transaction processing. The Company also serves the financing needs of corporations through investments in stocks, bonds and real estate, and provides funds for private placements and mortgage loans.

Sun Life conducts business both directly and through reinsurance markets. At the end of 1988 the Company owned assets of more than $23 billion and managed an additional $26 billion of assets, and had life insurance in force of $202 billion.

The Company's strong financial position is illustrated by our Standard & Poor's rating of "AAA" for claims-paying ability and A+ (Superior) by A.M. Best Company. These are the highest corporate ratings given by both organizations.

Company Highlights of 1988

	1988	1987	% change
(in millions of Canadian dollars)	$	$	
Financial Position			
Total Assets under Management	**48,979**	45,142	8
Total Company Assets	**23,189**	21,994	5
Mutual Fund and other Assets under Management	**25,790**	23,148	11
Surplus			
Currency Translation Reserve	**46**	144	(68)
Appropriated Surplus	**712**	575	24
Unappropriated Surplus	**1,559**	1,449	8
Business Statistics			
New Life Insurance •	**56,723**	31,014	83
Life Insurance in Force •	**202,393**	174,664	16
Funds Held for Annuities in Force	**7,305**	6,662	10
Segregated Fund Deposits	**682**	1,058	(36)
Mutual Fund Net Sales	**4,725**	7,703	(39)
Operating Results			
Premiums			
Life Insurance	**1,278**	1,127	13
Health Insurance	**465**	384	21
Annuities	**1,158**	1,322	(12)
Investment Income	**1,696**	1,544	10
Fee Income	**362**	274	5
Total Revenue	**4,959**	4,651	7
Payments to Policyholders and their Beneficiaries	**2,018**	2,328	(13)
Operating Income before Dividends	**589**	463	27
Policyholder Dividends	**342**	309	11
Net Income	**247**	154	60

• Includes reinsurance assumed.

Your Company enjoyed a satisfactory year in 1988. Operating income, before provisions for policyholder dividends, was at a record level of $589 million, representing an increase of 27 percent over the previous year. Dividends to policyholders were $342 million. Payments to policyholders and their beneficiaries exceeded $2.0 billion which included: $446 million of death and disability benefits; $373 million of annuity payments; and $381 million of health benefits. These figures speak of a record of service to the public of which we are very proud.

New life insurance issued during the year amounted to $57 billion, an increase of 83 percent over the previous year. Contributing to this notable result was $27 billion of reinsurance assumed, a relatively new line of business which is discussed in more detail later in this report. Particularly notable increases in new sales of life insurance were achieved in individual insurance in Great Britain and Ireland and in group insurance in all three of our principal territories. At the year end our policyholders had life insurance protection totalling $202 billion.

Total premium income amounted to $2.9 billion. This result was influenced by a decline of 12.4 percent in premium income from fixed annuities. Life insurance premium income and health insurance premium income, by contrast, showed increases of 13.4 percent and 21.2 percent respectively.

This year, for the first time, our segregated fund results are shown separately. This change is in accordance with recommendations made by the Canadian Institute of Chartered Accountants which your management endorses since it serves to present a clearer picture of our financial results. Segregated fund deposits for life insurance and annuities amounted to $682 million in 1988 compared to slightly over $1.0 billion in 1987. The stock market decline of October 1987 caused potential customers to be more cautious with respect to variable annuities and unit linked life insurance which adversely affected our sales of these products.

The Company's total assets at year end amounted to $23.2 billion, an increase of 5.4 percent. The appreciation of the Canadian dollar relative to the United States dollar and the British pound diminished the rate of asset growth which would have shown an increase of 10.2 percent if exchange rates had remained constant.

The Company's assets are composed of $17.5 billion of General Fund assets and $5.7 billion of Segregated Fund assets. Our General Fund fixed income assets are of high quality as a matter of Company policy. The principal amount of mortgages and bonds whose interest is past due continues to be inconsequential in relation to our size. Investments causing us concern are minimal in number. We continue to own substantial investments in common stocks and real estate which historically have served our policyholders well in producing an increasing flow of dividend and rental income over time. It may be noted that the market value of our General Fund invested assets exceeds their carrying value by $915 million compared to $734 million at the previous year end.

John D. McNeil
Chairman and Chief Executive Officer

In addition to Company assets of $23.2 billion, the Company manages a further $25.8 billion of assets, which are primarily mutual funds and pension funds. Total assets under our care, therefore, amount to $49 billion, an increase of 8.5 percent over the previous year.

Company assets exceed our liabilities by $2.3 billion. This large sum is accumulated and invested for the benefit of our policyholders and is the tangible expression of Sun Life's unquestioned guarantee of its obligations, now and in the future.

The total surplus of assets over liabilities is now divided into three parts. At year end we separately identified a new Currency Translation Reserve in accordance with recommendations of the Canadian Institute of Chartered Accountants. Previously this reserve had been included with the funds shown under the heading of Appropriated Surplus. Due to the net adjustment of the values of assets and liabilities resulting from changes in currency exchange rates, this reserve was diminished by $98 million. From net income of $247 million we assigned $137 million to Appropriated Surplus partly as required by regulations and partly to provide for possible contingencies. This left a sum of $111 million which was added to our undesignated surplus funds.

Our net income figure was arrived at after charging earnings with a special provision for possible future claims arising from AIDS in the amount of $45 million. As a prudent measure we made a further $55 million voluntary appropriation of surplus for the same purpose. During 1988, the Office of the Superintendent of Financial Institutions required that special attention be given to the need to provide for potential AIDS claims, with any additional provision to be made either as a charge to earnings or by an appropriation of surplus. As noted, we employed both methods. These provisions for AIDS claims were made in accordance with proposals put forward by the Canadian Institute of Actuaries, which has prepared studies on the additional mortality that might arise from this most troubling disease.

During 1988 the Company actively supported both independently and through the Canadian Life and Health Insurance Association and the American Council of Life Insurance the funding of AIDS-related medical research, treatment centres and public education programs.

Regular dividend scales are being maintained at the 1988 level for Canada, the United Kingdom and the Far East. The dividend scale for the United States is being adjusted effective April 1, 1989, to reflect lower mortality and higher expenses. The net result of these changes for United States policyholders is a modest reduction in dividends for newer policies and a modest increase for older ones. Special maturity dividends in Canada and the United States are, at long durations, being decreased in the event of death but increased in the event of surrender. For shorter durations there is no change. In Great Britain and Ireland reversionary and terminal bonus scales are being maintained at the 1988 level.

Sun Life's moves to diversify its financial services to the public continued to pay off handsomely in 1988. Concerns have been expressed in some quarters that investments by life insurance companies in subsidiary enterprises represent undue additional risks or are likely to be very slow in producing acceptable returns on investment. Our overall experience from subsidiaries does not bear out these fears. In aggregate, our subsidiaries contributed $62 million to our consolidated net income in 1988 representing a very satisfactory return on investment. We believe the risks inherent in these enterprises are no greater than those presented by expansion through the parent company since we confine ourselves to businesses which we have the skills and knowledge to manage. We do not aspire to manage "commercially-linked" enterprises not of a financial service character. We believe that mutual life insurance companies which have the management expertise and the necessary base of capital funds should not be hampered in their efforts to expand their financial services to the public.

In this regard we think that it is worth noting that the leading mutual life insurance companies incorporated in Canada, are unquestionably Canadian controlled now and into the future. Many of the larger mutual companies, including Sun Life, have expanded internationally and have brought great credit to our country. We believe that the policies of the Government of Canada should encourage the continued expansion of these very Canadian institutions.

John R. Gardner
President

In Canada, the life insurance industry is in the process of establishing a consumer protection plan which is analogous to deposit insurance for banks and trust companies. It should be noted, in this context, that no policyholder has ever lost money due to the failure of a federally chartered Canadian life and health insurance company.

Deposit insurance is a vexing matter. It was introduced in this country with the intention of encouraging new entrants into deposit taking and thereby increasing competition and innovation. What in fact it did encourage was the entry into business of less capable operators at enormous costs to Canadian consumers who ultimately bear the burden of making up the losses when an institution fails. These unhappy events in turn have increased public pressure for even more protection. Deposit insurance forces sound companies to support their worst managed competitors. We continue to believe the way to solve this unsatisfactory situation is to introduce the principle of "co-insurance" whereby, beyond a certain threshold, the depositor would bear a portion of the losses. This approach has been recommended by the Canadian life and health insurance companies but rejected by the federal and provincial governments. We are not persuaded that this sound solution is politically unacceptable.

Contrary to expressed intentions, the reform of financial services legislation appears to be leading to more regulation rather than less. For example, during 1988 Great Britain introduced the Financial Services Act which imposed a number of bureaucratic regulations on the sale of life insurance company products. Compliance imposed a considerable burden on management and substantial costs on companies, with little identifiable benefit of substance to consumers who will ultimately foot the bill.

Taxation is a continuing problem for our industry in Canada. Our customers already pay premium taxes to the provinces. The Federal Government imposes ordinary income taxes on company profits and in addition in 1988 introduced an "investment income tax". Currently the Federal Government proposes to introduce a sales tax which is designed to be paid by consumers on life and health insurance services.

Two points may be made. First, a tax advantage does not seem to be important in persuading people to buy cigarettes, beer, cosmetics, automobiles or a host of other products providing immediate gratification. On the other hand, a tax advantage has been quite important in the past in persuading people to buy a long-term financial contract such as life insurance. Secondly, in the United States, after careful consideration, tax reform maintained the tax advantage of life insurance as a matter of public policy.

Historically, in Canada, life insurance has been regarded as a socially desirable product that promotes self-reliance and social welfare. Furthermore, our industry has long been a major source of long-term capital for productive enterprises. These two factors are reason enough for the Government of Canada to give a tax preference to those willing to provide for their own financial security and independence.

There have been a number of management changes in the past year. At the Annual General Meeting in May, 1988, Thomas M. Galt, F.S.A., F.C.I.A., retired as Chairman and Chief Executive Officer after 40 years of outstanding service and leadership. He was succeeded by John D. McNeil. Tom R. Hale, M.D. retired as Vice-President and Chief Medical Director and was succeeded by B. Ross Mackenzie, M.D. who joined us from the Department of Medicine of Dalhousie University. F. Herbert Frizzell retired as Vice-President and General Manager, Far East and was succeeded by Lance W. Kemp, Regional Vice-President, Far East. A. Graham McCracken will retire shortly as Vice-President, General Counsel and Secretary and

Gregory W. Gee has been confirmed as his successor. All our retiring officers have rendered the Company outstanding service over long careers and we thank them and wish them well in retirement.

With great sadness we record the untimely death, due to cancer, of George J. McElroy, Vice-President, Information Systems in our United States National Office. The Company has established a scholarship in his name at Babson College, Massachusetts.

At the Annual General Meeting in May, 1988, Grant L. Reuber, O.C., Deputy Chairman, Bank of Montreal, retired from the Board due to the pressure of his other commitments. Mr. Reuber was a wise and knowledgeable director and we thank him for his services. He was succeeded by W. Vickery Stoughton, President, The Toronto Hospital, who brings to the Board much knowledge of the health care field.

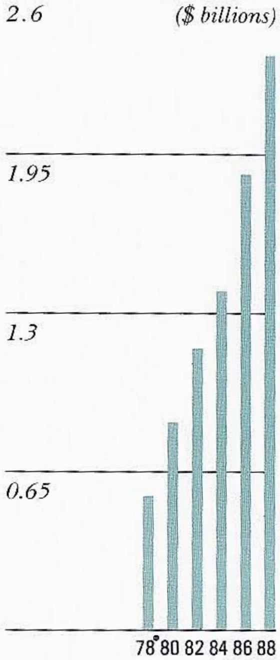
The business of a life insurance company is truly a great business. It has a high social and moral purpose and our Company is proud to be part of it. The investment capital that we mobilize brings prosperity and progress to the many communities we serve. Most people need assistance and advice in making adequate provision for life insurance protection, retirement savings and overall financial security and it is our mission to provide it. The results we have achieved are attributable to the many talented and dedicated men and women who make up the Sun Life family and on behalf of the Directors we thank them for their contributions.

John D. McNeil
Chairman and Chief Executive Officer

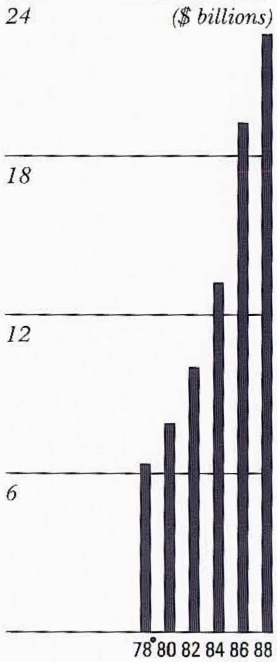
John R. Gardner
President

	1988	1987	1986	1985	1984
(in thousands of Canadian dollars)	**$**	$	$	$	$
Operating Results					
Premiums					
Life insurance	**1,277,657**	1,126,509	1,017,355	906,355	813,805
Health insurance	**465,146**	383,771	300,894	269,526	272,549
Annuities	**1,158,506**	1,322,100	1,086,380	1,070,199	521,063
	2,901,309	2,832,380	2,404,629	2,246,080	1,607,417
Investment income	**1,696,343**	1,544,183	1,419,554	1,224,787	1,090,454
Fee income	**361,838**	274,223	165,939	68,292	46,262
Total revenue	**4,959,490**	4,650,786	3,990,122	3,539,159	2,744,133
Payments to policyholders and their beneficiaries	**2,018,039**	2,328,393	1,581,299	1,638,125	1,160,524
Increase in actuarial reserves	**1,349,069**	1,025,453	1,298,904	1,031,117	754,773
Commissions, operating expenses and taxes	**1,003,220**	834,562	646,711	499,587	480,333
	4,370,328	4,188,408	3,526,914	3,168,829	2,395,630
Operating income	**589,162**	462,378	463,208	370,330	348,503
Policyholder dividends	**341,593**	308,575	278,824	226,173	230,051
Net income	**247,569**	153,803	184,384	144,157	118,452
At December 31					
Assets	**23,188,813**	21,994,408	19,250,205	15,959,527	13,235,786
Currency translation reserve	**45,967**	143,863	–	–	–
Appropriated surplus	**712,000**	575,000	662,000	645,000	615,000
Surplus	**1,559,165**	1,448,596	1,308,957	1,150,500	997,011
Total surplus	**2,317,132**	2,167,459	1,970,957	1,795,500	1,612,011
Business Statistics					
New life insurance •	**56,723,206**	31,014,422	31,541,258	24,593,498	21,875,865
Life insurance in force ▲	**202,393,371**	174,663,995	144,192,115	123,156,638	106,890,580
Health insurance reserves	**869,165**	779,473	604,983	538,696	487,768
Annuity reserves	**7,305,434**	6,662,026	5,747,825	4,794,503	3,945,505
• Includes reinsurance assumed	**27,044,271**	7,061,532	9,082,411	6,282,269	5,056,955
▲ Includes reinsurance assumed	**38,869,390**	21,800,148	18,260,878	12,778,343	7,710,502

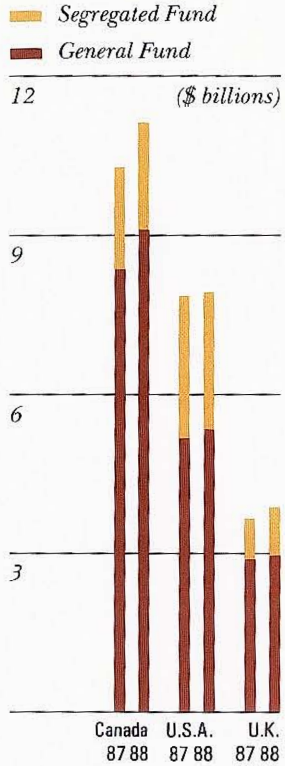
Payments to Policyholders and their Beneficiaries (includes dividends)



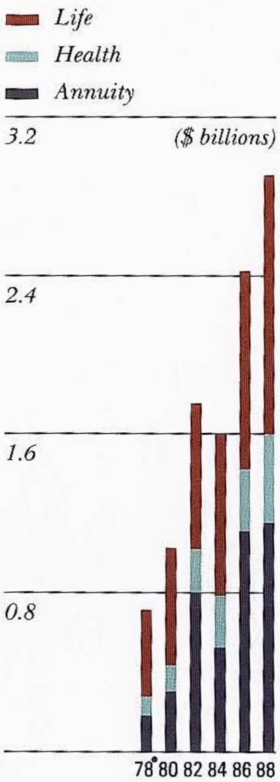
Assets



Assets Segmented by Principal Territory

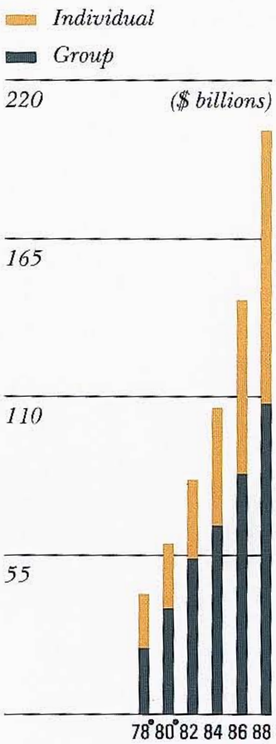


Premiums



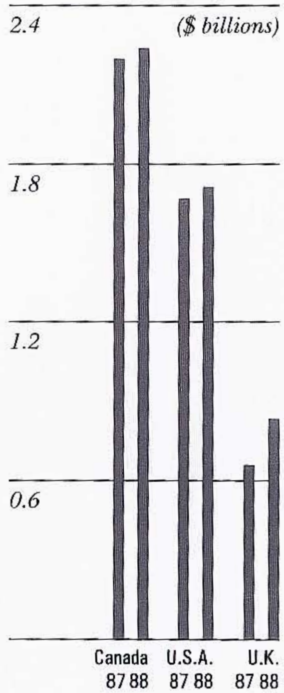
• *Unconsolidated figures as published.*

Life Insurance in Force△

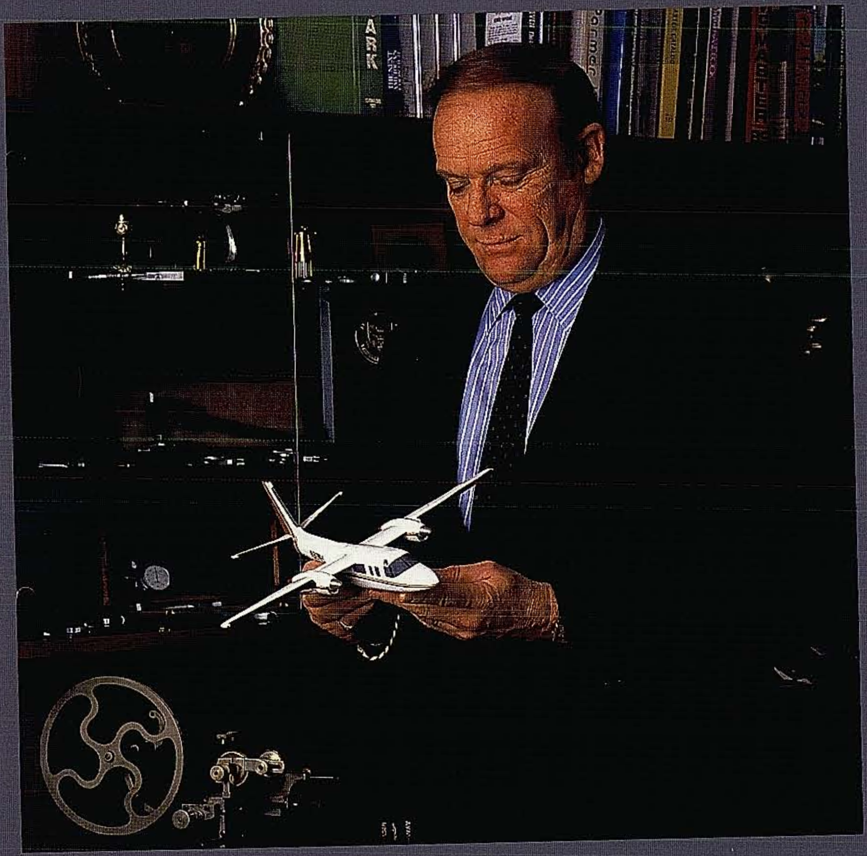


△ *Figures are for life insurance only. They do not include annuities or health insurance. They do include reinsurance assumed.*

Total Revenue by Principal Territory



Providing individual life insurance protection is the core of our mission as a company. We will continue to offer excellent long-term value to our clients.



Flying his own plane, Frederick Fowler Jr. covers his coast-to-coast precision tool business based in Newton, Massachusetts. His life insurance needs are looked after by Sun Financial Group.

While financial conditions and customer preferences may vary from year to year, some things remain constant. Sun Life's excellent products and first-class service continue to be key factors behind our success in the individual life insurance market. By the end of 1988, the Company had 1.6 million individual insurance policies in force.

The amount of individual life insurance in force increased by 8 percent in 1988, bringing total individual life insurance in force to more than $55 billion, generating premiums of $825 million.

Some things do change, though. For instance the stock market volatility of 1987 caused a shift in demand in 1988. More customers sought assured rates of return, moving from variable rate products, popular in the early 1980s, to fixed interest rate, guaranteed products.

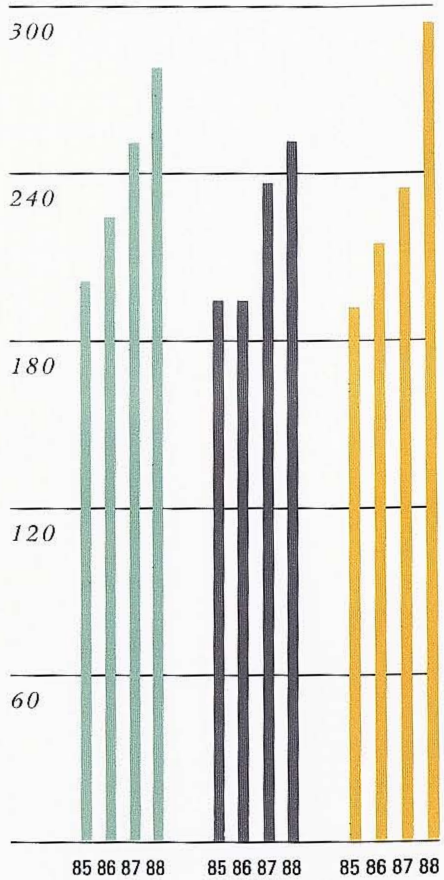
Change means opportunity, and Sun Life has moved to take advantage of shifting customer preferences by emphasizing the considerable strengths of our traditional insurance products.

While products play an important role in our business, Sun Life recognizes that people need help to make informed decisions and commitments regarding their financial future. They need help from someone they can respect and trust.

In North America, more than 2,300 Sun Life career agents fill the role of trusted financial advisor. In the United Kingdom, our career agency force of 1,130 is growing more quickly than ever before in response to the new Financial Services Act. This legislation makes it more attractive for insurance agents to become dedicated sales representatives of a single company.

We expect to build market share with trained, experienced Sun Life representatives in the years ahead—a top priority in all our markets.

Our commitment to the career agent approach has not precluded other initiatives where market conditions warrant. In the United States, competitive pressures have resulted in the development of three distinct,



Premium Income from Individual Life and Health Insurance

(Figures are in millions of Canadian dollars)

Canada

United States

Great Britain and Ireland

Sun Life is a major provider of group life and health insurance. These are businesses we will continue to pursue with vigour and commitment.

Staff Sergeant John Andrews and Constable Jennifer Thorson enjoy the new Metropolitan Toronto Police headquarters building. Their life insurance coverage is safeguarded by a Sun Life group policy.

highly effective distribution networks. Sun Life products are sold through our career agency system, through stock brokers and through a growing network of independent insurance brokers.

In 1988, we explored another variation on expanding our distribution network. Sun Life in the United States teamed up with Merrill Lynch Life Insurance Agency to distribute CompassLife, our single premium variable life insurance product.

Two acquisitions made in 1986, Massachusetts Casualty Insurance Company and New London Trust Company, are proving advantageous in the United States market. Through Massachusetts Casualty, our career agents and brokers can offer highly specialized and competitive disability income insurance. Through New London Trust, we are able to offer a range of bank deposit instruments and direct trusteeship services to pension clients.

In the intensely competitive markets where Sun Life does business, superior customer service remains a key way to differentiate the company from other insurers and to attract business.

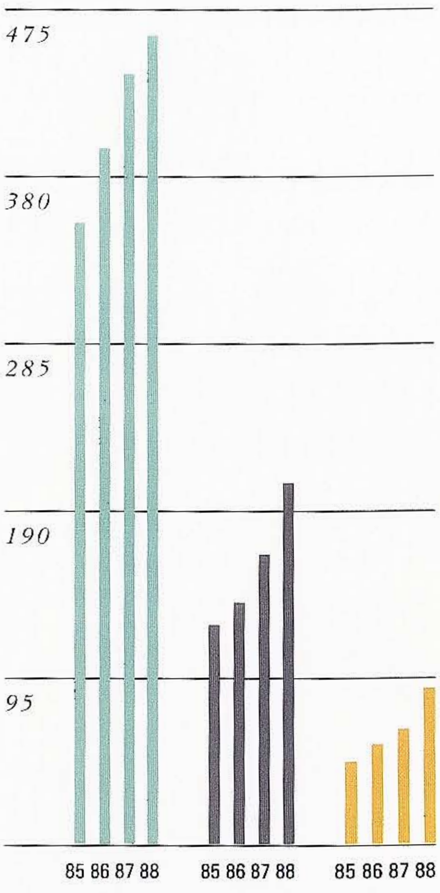
Our commitment to improved customer service is reflected in new measures we have undertaken to develop more efficient administrative systems.

For instance, in the United States in 1988 our individual insurance service departments instituted a Service Quality Program. Every employee involved with customer service is participating in a process of identifying just who their own customers are and what kind of service they expect. This ongoing program has already led to new service standards in several areas.

Our dedication to technological excellence and advanced computer architecture in all our markets will also ensure continued competitiveness and superior service in the years ahead.

Sun Life intends to increase market share in the group life and health insurance business while remaining profitable – no small task in this highly competitive segment of our business.

The Company completed the year with more than 9,500 group insurance contracts in force. Overall, our group life business grew by 7 percent during 1988,



Premium Income from Group Life and Health Insurance

(Figures are in millions of Canadian dollars)

Canada
United States
Great Britain and Ireland

bringing total group life insurance in force to more than $108 billion.

All facets of our strategy, including product design, administration and marketing, address the cost considerations of our clients. We are proud of the calibre of service we provide.

In Canada, our group insurance theme "Best of all, we care" exemplifies our comprehensive approach. We have concentrated on offering flexibility in product design, superior customer service and responsive administrative support.

This approach will help us not only maintain our leadership position in group life insurance in Canada but also increase market share.

In the United States customer service is a high priority. Our group insurance operation streamlined its administrative procedures during the year with an across-the-board switch to self-administered plans. This step eliminated the duplication in record keeping that has existed since group clients began to automate their systems for storing information on employee benefits.

Current group life insurance sales rank Sun Life among the top 25 providers in the United States – a respectable ranking in this huge market.

Competition and an unexpected escalation in health care costs have caused losses in our United States health business particularly with respect to our dental and excess risk lines. We are responding by being more selective in our underwriting and are making rapid price adjustments in the light of claims experience.

In the United Kingdom, Sun Life's group life and health insurance business has grown rapidly over the past few years. We are now acknowledged to be one of the top two providers of group life insurance. In terms of sales of group permanent health insurance (a long-term disability income product), Sun Life ranks third in new sales, despite the fact that we only entered this market in 1985.

We attribute our success in the United Kingdom to the professional skills of our underwriting team, tight cost control and careful targeting of our market.

After only six years in the field, Sun Life is recognized as one of the major participants in the life and health reinsurance market in North America. We operate primarily as a retrocessionaire, reinsuring reinsurers.

Our North American retrocession business is managed by a small team of specialists at our corporate head office in Toronto, while our office in Basingstoke manages the retrocession business in the United Kingdom. Our activities currently concentrate on life, health and special risk reinsurance.

Total life reinsurance premiums exceeded $124 million in 1988.

Our involvement in retrocession activity has provided the Company with a substantial increase in the amount of its insurance in force. At the end of 1988, reinsurance accounted for $39 billion of Sun Life's total individual insurance in force of $94 billion.

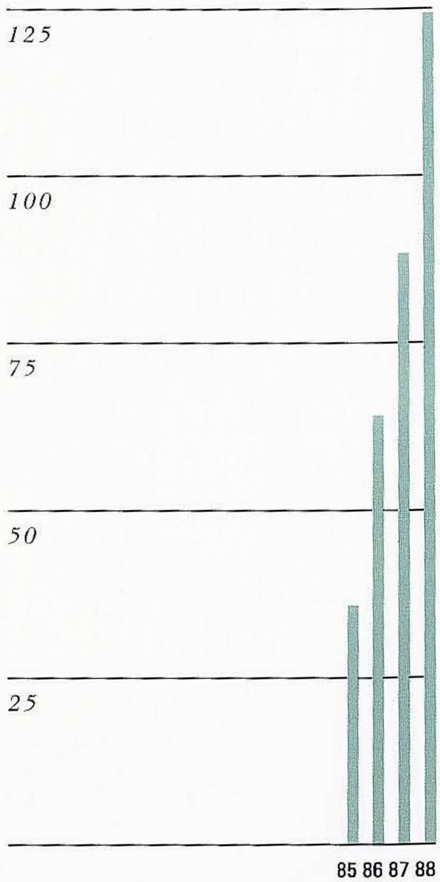
Sun Life provides significant financial capacity to professional reinsurers, helping them meet the needs of their clients — the direct underwriting companies.

Reinsurance activity supports the Company in several ways.

First and foremost, reinsurance of the life and health business is used as a financial management tool to improve after-tax return on surplus in various lines of business. It also permits us to explore new products and territories and assess the growth potential for the Company in these markets.

It is also used to improve our spread of risk. This is accomplished by accepting risks on one line of business and "ceding off" risks on another.

Finally, being active in the reinsurance market allows us to be more responsive to the needs of our agents. It provides the contacts and knowledge needed to take on business that we might not otherwise be able to accept.



Premium Income from Reinsurance
(Figures are in millions of Canadian dollars)

Sun Life's pension services and products are creatively designed to meet the present and future needs of our clients.

David and Gill Smith who run a successful interior design business in Chorleywood, Hertfordshire, have planned their financial future, concentrating on their pensions, with the help of Haydn Burnham, a senior sales consultant and their friend of more than twenty years.

The pension industry is experiencing a period of significant change, with legislative initiatives a prime contributor to this transition.

A major effect of these changes is a trend toward defined contribution plans. For Sun Life, this trend represents an opportunity to increase market share.

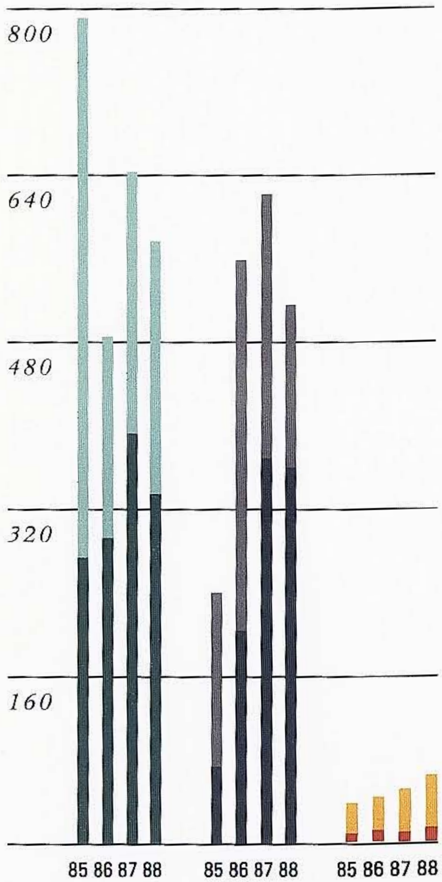
Defined contribution plans and salary savings plans are causing the pension business to become a transaction processing activity, heavily dependent on powerful computer systems technology. Sun Life's established strength in this area is a considerable advantage in this demanding segment of the market in Canada.

Over the longer term, with both an aging population and a trend toward privatization, Sun Life views pensions as an important growth sector. Our established reputation and market share place us in a good position to capitalize on the opportunities ahead.

In Canada, we are intensifying marketing activity by our investment management subsidiary, Sunimco. As part of a strategy to increase the volume of funds that Sunimco manages, we launched the International Equity Fund. This new fund further expanded the investment options we offer to our larger pension clients. Sun Life representatives in Canada were particularly successful in 1988 with our Horizon pension product which addresses the specific pension requirements of small to mid-sized businesses.

In the United States, growth in defined contribution pensions continues, particularly with respect to Section 401(k) plans. The pension division has responded to this market by making available a full array of funding vehicles coupled with full plan administration for the small to medium size plan market. Continued growth was also experienced in the group pension area primarily through the sale of single premium group annuities and guaranteed investment contracts to larger plan sponsors.

In the United Kingdom, Sun Life is continuing to respond to changes in pension legislation by enhancing products and sales training. We focussed on personal pensions in 1988, introducing a flexible new product, 50-75 Plan, to enable our customers to take advantage of the new legislation. Pensions now account for approximately one-third of the business produced by our agency force in the United Kingdom.



Premium Income from Pensions

(Figures are in millions of Canadian dollars)

- *Individual, Canada*
- *Group, Canada*
- *Individual, United States*
- *Group, United States*
- *Individual, Great Britain and Ireland*
- *Group, Great Britain and Ireland*

In developing a wider presence as a provider of financial services, we will concentrate on opportunities that have a good fit with our existing lines of business.

Keevin Geller is president of a large lumber and building supplies company in Milton, Massachusetts. He is secure in his future with his pension invested in a mutual fund managed by Massachusetts Financial Services.

Our mutual fund business is not only profitable to Sun Life but also provides clear strategic advantages.

With mutual funds, we are able to serve our customers better by offering a more complete range of financial products to meet their needs.

Financial security is important to our customers, especially in today's uncertain market conditions. Sun Life's reputation as a stable company has been advantageous – particularly during a difficult year in the mutual fund industry when many people reassessed their investment strategies.

Sun Life offers a complete range of mutual funds in the United States through our wholly-owned subsidiary, Massachusetts Financial Services (MFS).

During 1988, MFS expanded its product range by establishing an International Markets Group, geared to explore marketing opportunities for MFS products and services around the world.

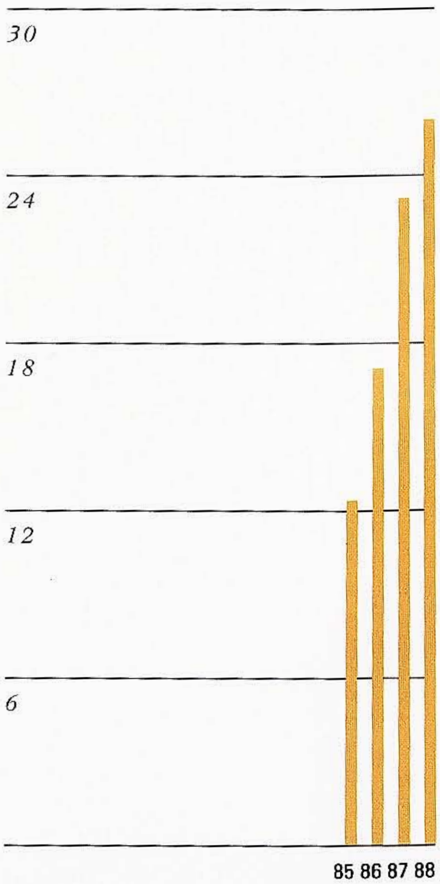
MFS manages $25 billion for more than 1.6 million investors. Service to these investors was improved during the year when MFS installed a new data-processing system for the MFS Service Center. This new system streamlines record-keeping procedures.

Relying on its longstanding reputation for serving the interests of shareholders and its experience in prudent asset management, MFS weathered the challenges the mutual fund industry faced in 1988 – faring better than most of its competitors. Despite a decline in sales from 1987, MFS posted a record year in 1988 for revenues and profits.

In Canada, our Spectrum family of seven mutual funds demonstrated excellent growth in 1988, its first full year of operation. By year end, 720 of Sun Life's representatives were licensed to sell mutual funds and, with strong sales in 1988, assets under management increased to $175 million, up $101 million over 1987. The total number of clients grew to more than 13,000.

Marketing efforts for Spectrum mutual funds were assisted by the introduction during the year of the Registered Education Savings Plan (RESP), a vehicle to help people save for their children's post-secondary education. While the majority of Spectrum's sales were through our dual-licensed Sun Life representatives, we are aggressively developing a network of broker representatives in Canada.

In the United Kingdom, Sun Life is a recent arrival on the unit trust (mutual fund) scene. Despite difficult conditions in 1988, we have secured a good foothold for future expansion, with assets under management of £20 million.



Managed and Mutual Fund Assets

(Figures are in billions of Canadian dollars)

Changes in regulation will encourage new entrants to the insurance industry. Experience and financial strength will be of utmost importance in providing the staying power required to compete effectively.

Real estate is a major part of our investment portfolio and we take pride in the care of our properties. Jacqueline Boucher, a staff member of Empire Cleaning, maintains this standard for one of our major tenants in our Sun Life building in Montreal, Quebec.

Sun Life is in business to protect the financial security of our clients. Our investment activities are fundamental to achieving our business objectives.

Over the years, the Company has realized sound investment results by following a value-oriented, stable investment policy. This policy is based on the use of a diversified portfolio of bonds, stocks, real estate and mortgages with specialist managers and analysts for each major asset class in each national territory where we operate.

Since the nature of our business varies from country to country, we adjust the asset mix of local portfolios to the nature of our liabilities in each market. At all times, in all our markets, Sun Life invests only in financially sound investments.

This investment policy has served Sun Life well in the past as demonstrated by our consistently strong surplus ratio. Sun Life has more capital relative to liabilities than any other Canadian life insurance company.

This emphasis on stability helped us weather the volatile times of 1987 and continued to provide good returns in 1988.

We are confident that our prudent investment approach will continue to provide the balance of safety and return which will be required in the years ahead.

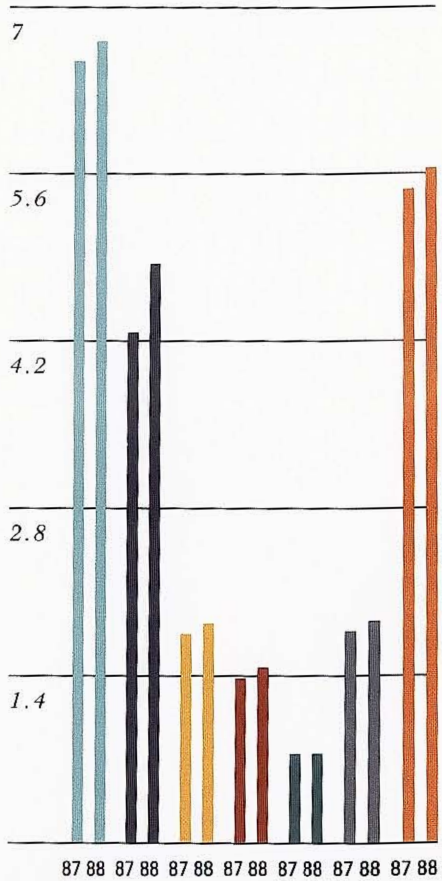
Sun Life's investment activities are geared to serve two distinct groups – our policyholders, as well as other corporations and individual clients.

We manage the unique requirements of these two groups by structuring our investment management operations differently in each market.

In Canada, management of our life and health General Fund assets is handled by Sun Life investment officers while investment activity for pension funds, mutual funds and Segregated Fund assets is handled by employees of our wholly-owned investment management subsidiary, Sunimco.

In the United States, Sun Life investment officers are responsible for the management of the General Funds as well as some of the Segregated Fund assets. Investment officers at MFS, our wholly-owned subsidiary, handle the remainder of our investments. This responsibility includes the management of mutual fund assets for individuals, pension funds for other clients, and the segregated fund assets of policies sold by Sun Life to individual clients.

In the United Kingdom, investment managers in our national headquarters operation handle both the general business investments and the unit-linked products sold to individuals.



Company Invested Assets

(Figures are in billions of Canadian dollars)

- *Bonds*
- *Mortgages*
- *Stocks*
- *Real Estate*
- *Cash & Short-term Securities*
- *Other Assets*
- *Segregated Funds*

Sun Life is proud of its contributions to the communities it serves. Our commitment to community involvement is an important aspect of our business philosophy.

Through Sun Life's sponsorship of the Canadian National Figure Skating Association and their "Champions on Ice" tour, Carla Waye of Moncton, New Brunswick is brought one step closer to Brian Orser, Olympic silver medal winner.

Our Company makes a significant contribution to the communities in which we operate, both in our role as a responsive employer and as a responsible corporate citizen.

An important part of the Company's fulfilment of its corporate social responsibility is its contributions program which offers support to a wide range of non-profit organizations, particularly in the communities in which Sun Life has a major presence.

Many of our employees and representatives have complemented our efforts by offering their own personal time and services to assist various non-profit organizations. In many cases the Company recognizes this commitment by offering financial support to the organizations in which our people are actively involved.

One of the main areas of focus in our contributions budget covers the support of hospitals, medical research and health services. Recently, a special contribution was made to the Canadian Cancer Society to assist in the production of a leaflet explaining recent breakthroughs with oncogenes. This leaflet was distributed door-to-door during its fundraising campaign. We feel privileged to play a part in making this information available to the public.

Another important way that Sun Life gives support to the community is through our event sponsorship program. This program provides the Company with a way to promote its philosophy of health and fitness through several sports-related sponsorships. The events sponsored are as varied as our international character, and are developed to suit each particular community. While many of these events are handled centrally, a large number are planned and organized by our branch office management in Canada, the United States and the United Kingdom.

Some of our previously initiated sponsorships were renewed and expanded during 1988. Our increased financial support of the "Sun Life Nationals" in Canada has made this the world's third largest closed national tennis championships. Other major sponsorships include "Sun Life Skate Canada International" in Canada and the national "Under 15 Club Cricket Championships" in the United Kingdom.

Sun Life also supports the concept of speaking out on issues that affect the insurance industry. For example, last year our Canadian operations established a Speakers' Bureau as a way to more effectively communicate the Company's views on government initiatives and issues of social concern. In the United Kingdom we are currently making our views known about reforms of life company taxation which could act as an additional indirect tax on policyholders.

These activities reflect our ongoing commitment to the health and well-being of the community.

Sun Life Assurance Company of Canada, through its branch agency distribution network and company employees, issues life insurance policies and retirement savings plans for individuals; group insurance, including life and health insurance, disability income and dental plans; and pension products; in Canada, the United States, Great Britain and Ireland, and the Far East. Wholly-owned subsidiaries shown here provide a full range of other financial services.

Sun Life Assurance Company of Canada

Started business: 1871

John D. McNeil
Chairman and Chief Executive Officer

John R. Gardner
President

Canada
John S. Lane
Senior Vice-President and General Manager

United States
David D. Horn
Senior Vice-President and General Manager

Great Britain and Ireland
Richard W.S. Baker
Senior Vice-President and General Manager

Far East
Lance Kemp
Regional Vice-President

Canada

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

John S. Lane — *Incorporated:* *1975*
Chairman

Donald T. Walcot
President

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

John S. Lane — *Incorporated:* *1976*
Chairman

William R. Pearo
President

Spectrum Mutual Fund Services Inc. manages and markets all Spectrum mutual funds.

John S. Lane — *Incorporated:* *1987*
Chairman

Yves Laneuville
President

Sun Life Distribution Services Inc. (Sunetco) distributes Spectrum mutual funds and trains dualy-licensed Sun Life/Sunetco representatives.

John S. Lane — *Incorporated:* *1987*
Chairman

William R. Pearo
President

Great Britain and Ireland

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

John D. McNeil — *Incorporated:* *1969*
Chairman

Richard W.S. Baker
Managing Director

Sun Life of Canada Unit Managers Limited (Slocum) manages three authorized unit trusts, known as Sun Life of Canada U.K. Growth Fund, Sun Life of Canada U.K. Income Fund and Sun Life of Canada Worldwide Growth Fund.

Richard W.S. Baker — *Incorporated:* *1986*
Chairman

Sun Life of Canada Home Loans Company Limited conducts residential mortgage lending business.

Richard W.S. Baker — *Incorporated:* *1988*
Chairman

United States

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

John D. McNeil — *Chairman* — *Incorporated:* 1970

John R. Gardner — *President*

David D. Horn — *Senior Vice-President and General Manager*

Sun Life Insurance and Annuity Company of New York (Sun Life N.Y.) distributes individual variable and fixed annuity contracts and issues group life and group long term disability contracts in the State of New York.

John D. McNeil — *Chairman* — *Incorporated:* 1983

John R. Gardner — *President*

David D. Horn — *Senior Vice-President*

Sun Investment Services Company (Sunesco) distributes variable annuity contracts, mutual funds and direct participation programs through its registered representatives. The Company also provides investment management and administrative services.

John R. Gardner — *Chairman* — *Incorporated:* 1970

David D. Horn — *President*

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

John R. Gardner — *President* — *Incorporated:* 1977

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.

William F. Kidder, Jr. — *Chairman and President* — *Incorporated:* 1958 — *Acquired:* 1986

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

Milan A. Heath, Jr. — *President* — *Incorporated:* 1926 — *Acquired:* 1987

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

Richard B. Bailey — *Chairman* — *Incorporated:* 1924

A. Keith Brodkin — *President* — *Acquired:* 1982

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

Richard B. Bailey — *Chairman* — *Incorporated:* 1968

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

Richard B. Bailey — *Chairman* — *Incorporated:* 1985

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

Richard B. Bailey — *Chairman* — *Incorporated:* 1986

Lifetime Advisers Inc. provides the investment management for mutual funds in the MFS Lifetime investment program.

Richard B. Bailey — *Chairman* — *Incorporated:* 1986

John D. McNeil, C.F.A.
Chairman and Chief Executive Officer,
Toronto, Ontario

John R. Gardner, F.S.A., F.C.I.A.
President,
Toronto, Ontario

Thomas M. Galt, F.S.A., F.C.I.A.
Chairman of the Executive Committee,
Toronto, Ontario

Sir Peter Baxendell, C.B.E.
Chairman,
Hawker Siddeley Group PLC,
London, England

Claude M. Bertrand, C.C., M.D.
Emeritus Professor of Surgery,
Université de Montréal,
Montreal, Quebec

John A. Brindle,
Company Director,
London, England

M. Colyer Crum,
Professor of Investment Management,
Harvard University Graduate School of
Business Administration,
Boston, Massachusetts

A. Jean de Grandpré, C.C., Q.C.
Chairman,
BCE Inc.,
Montreal, Quebec

Jock K. Finlayson,
Chairman,
Royal Insurance Company of Canada,
Montreal, Quebec

J. Peter Gordon, O.C.
Company Director,
Toronto, Ontario

Angus A. MacNaughton,
President,
Genstar Investment Corporation,
San Francisco, California

J. William E. Mingo, Q.C.
Partner,
Stewart, MacKeen & Covert,
Halifax, Nova Scotia

Alfred Powis, O.C.
Chairman and Chief Executive Officer,
Noranda Inc.,
Toronto, Ontario

Kathleen M. Richardson, O.C.
Director,
James Richardson & Sons, Limited,
Winnipeg, Manitoba

William W. Stinson,
President and Chief Executive Officer,
Canadian Pacific Limited,
Montreal, Quebec

W. Vickery Stoughton,
President and Chief Executive Officer,
The Toronto Hospital,
Toronto, Ontario

John A. Tory, Q.C.
President,
The Thomson Corporation Limited,
Toronto, Ontario

Marshall M. Williams,
Chairman and Chief Executive Officer,
TransAlta Utilities Corporation,
Calgary, Alberta

Executive Committee
Thomas M. Galt – Chairman
A. Jean de Grandpré
Jock K. Finlayson
J. Peter Gordon
John D. McNeil
Alfred Powis
Marshall M. Williams

Nominating Committee
J. Peter Gordon – Chairman
Thomas M. Galt
John D. McNeil
Alfred Powis
Kathleen M. Richardson

Audit Committee
Marshall M. Williams – Chairman
Claude M. Bertrand
Jock K. Finlayson
J. William E. Mingo
John A. Tory

Management Resources Committee
Alfred Powis – Chairman
Jock K. Finlayson
Thomas M. Galt
J. Peter Gordon
Angus A. MacNaughton
John D. McNeil

Corporate Office

Executive Officers:

***John D. McNeil,**
C.F.A.
Chairman and Chief Executive Officer

***John R. Gardner,**
F.S.A., F.C.I.A.
President

Principal Officers:

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

***John H. Harrison,**
Senior Vice-President, Investments

***Michael A. Hasley,**
Senior Vice-President, Finance

***Cameron J.D. Leamy,**
Senior Vice-President, Marketing

***Donald A. Stewart,**
F.C.I.A.
Senior Vice-President, Information Systems

Terrence L. Bedard,
C.F.A.
Vice-President, Investments

Stephen B. Browne,
Vice-President, Investments

Julian J.P. Dukacz,
F.S.A., F.C.I.A.
Vice-President, Taxation

Gregory W. Gee,
Vice-President and Associate General Counsel

Michael A. Gunns,
C.A.
Vice-President and Internal Auditor

D.R. Warwick Jamieson,
F.S.A., F.C.I.A.
Vice-President and Comptroller

A. Gordon Jardin,
F.S.A., F.C.I.A.
Vice-President, Reinsurance

Lance W. Kemp, F.L.M.I.
Regional Vice-President, Far East

A. Douglas Lang,
Vice-President, Human Resources

B. Ross MacKenzie,
M.D., F.R.C.P.(c), F.A.C.C.
Vice-President and Chief Medical Director

A. Graham McCracken,
Vice-President, General Counsel and Secretary

Robert J. Mifflin,
Vice-President, Planning and Development

Frank G. Morewood,
F.S.A., F.C.I.A.
Vice-President, Group

Owen A. Reed,
F.S.A., F.C.I.A.
Vice-President and Actuary

Claude M. Root,
Vice-President, Agencies

Thompson E. Skinner,
C.A.
Vice-President, Systems Strategy

National Offices

Principal Officers:
Canada

***John S. Lane,**
C.F.A.
Senior Vice-President, and General Manager

Gary M. Comerford,
Vice-President, Individual Marketing

Gary Corsi,
C.A.
Vice-President, Finance and Administration

Wayne H. Faithfull,
F.L.M.I.
Vice-President, Information Systems

Ian R. Fung,
Vice-President, Investments

Lucy G. Greene,
Vice-President, Human Resources

Raymond G. Hunter,
C.L.U.
Vice-President, Group Insurance

Gérald P. Jean,
Vice-President, Agencies

Jeffrey A. Norman,
Vice-President, Public Relations and Communications

Dikran Ohannessian,
F.S.A., F.C.I.A.
Vice-President, Group Insurance

William R. Pearo,
Vice-President and Assistant General Manager

C. James Prieur,
C.F.A.
Vice-President, Securities Investments

Lance E. Shaw,
C.L.U.
Vice-President

Angus B. Warren,
F.F.A., F.C.I.A.
Vice-President, Pensions

C.L.F. (Lee) Watchorn,
F.S.A., F.C.I.A.
Vice-President and Assistant General Manager

Great Britain and Ireland

***Richard W.S. Baker,**
Senior Vice-President and General Manager

Maurice E. Bates,
Vice-President and Assistant General Manager

Quentin de la Bedoyere,
Vice-President, Planning and Development

H. Anthony Fenn,
Vice-President, Investments

Roy J. Fredericks,
Vice-President and Chief Legal Adviser

H.A. (Tony) Heath,
F.I.A., F.P.M.I.
Vice-President, Product Management

Paul A. Littleton,
Vice-President, Sales and Service

Robert G. Meek,
Vice-President, Information Systems

Michael C. Sollom,
M.I.P.M., M.B.I.M.
Vice-President, Personnel

United States

***David D. Horn,**
Senior Vice-President and General Manager

O. Allen Anderson,
Vice-President, Group Insurance

H. Roy Bentley,
F.L.M.I.
Vice-President and Controller

Gerald A. Jeutter,
C.L.U.
Vice-President, Agencies and Assistant General Manager

Robert E. McGinness,
Vice-President and Counsel

A.R. (Tim) McMurrich,
F.S.A.
Vice-President, Individual Products and Services

Ronald Standring,
Vice-President, Information Systems

David B. Wray,
Vice-President, Investments

*Members of the Senior Advisory Council

Consolidated Balance Sheet

December 31	1988	1987
(in thousands of Canadian dollars)	$	$
Assets		
General Fund		
Bonds	**6,727,391**	6,536,734
Mortgages	**4,863,468**	4,280,698
Stocks	**1,846,719**	1,754,024
Real estate	**1,464,874**	1,392,901
Policy loans	**653,198**	679,374
Cash and short-term securities	**757,183**	756,208
Other invested assets	**129,297**	130,629
Investment income due and accrued	**272,927**	269,316
Outstanding premiums	**88,034**	83,713
Deferred acquisition costs	**169,494**	132,329
Other assets	**558,023**	491,780
Total general fund assets	**17,530,608**	16,507,706
Segregated Funds		
Net assets	**5,658,205**	5,486,702
	23,188,813	21,994,408
Liabilities and Surplus		
General Fund		
Actuarial liabilities:		
Reserves for unmatured obligations	**12,217,216**	11,410,900
Provision for dividends	**350,593**	360,400
Provision for experience refunds	**29,075**	47,102
Provision for unreported claims	**89,692**	83,090
Reserve for Company employee and retiree uninsured benefits	**98,889**	90,872
	12,785,465	11,992,364
Amounts on deposit	**1,009,111**	955,385
Policy benefits in process of payment	**98,510**	102,777
Accrued expenses and taxes	**104,337**	74,145
Deferred net realized gains	**747,094**	747,548
Encumbrances on real estate	**17,655**	87,754
Other liabilities	**455,210**	383,834
Total general fund liabilities	**15,217,382**	14,343,807
Segregated Funds		
Segregated fund contract liabilities	**5,654,299**	5,483,142
	20,871,681	19,826,949
Surplus		
Currency translation reserve	**45,967**	143,863
Appropriated surplus	**712,000**	575,000
Surplus	**1,559,165**	1,448,596
	23,188,813	21,994,408

Consolidated Statement of Operations

Year ended December 31	1988	1987
(in thousands of Canadian dollars)	$	$
Revenue		
Premiums		
Life insurance	**1,277,657**	1,126,509
Health insurance	**465,146**	383,771
Annuities	**1,158,506**	1,322,100
	2,901,309	2,832,380
Investment income	**1,696,343**	1,544,183
Fee income	**361,838**	274,223
	4,959,490	4,650,786
Expenditure		
Payments to policyholders and their beneficiaries:		
Death and disability benefits	**445,532**	396,082
Maturities and surrender values	**686,285**	1,197,227
Annuity payments	**372,586**	315,762
Interest on claims and deposits	**99,662**	88,974
Experience rating refunds	**33,400**	16,030
Health benefits	**380,574**	314,318
	2,018,039	2,328,393
Increase in actuarial reserves	**1,349,069**	1,025,453
Commissions	**214,617**	195,065
Operating expenses	**716,153**	581,605
Taxes	**72,450**	57,892
	4,370,328	4,188,408
Operating Income	**589,162**	462,378
Policyholder dividends	**341,593**	308,575
Net Income	**247,569**	153,803

Consolidated Statement of Surplus

Year ended December 31	**1988**
(in thousands of Canadian dollars)	**$**
Currency Translation Reserve	
Reclassification of 1987 currency translation reserve formerly held in Appropriated Surplus	**125,000**
Effect of presenting 1987 assets and liabilities at actual market rates of exchange	**18,863**
Balance, January 1, as reclassified	**143,863**
Net adjustment of assets and liabilities due to changes in exchange rates	**(97,896)**
Balance, December 31	**45,967**

Year ended December 31	**1988**	1987
(in thousands of Canadian dollars)	**$**	$
Appropriated Surplus		
Mandatory surplus appropriations:		
Balance, January 1	**419,503**	285,818
Appropriations during year	**82,341**	104,262
Reclassification to Currency Translation Reserve	**–**	29,423
Balance, December 31	**501,844**	419,503
Voluntary surplus appropriations:		
Balance, January 1	**155,497**	376,182
Appropriations during year	**54,659**	(66,262)
Reclassification to Currency Translation Reserve	**–**	(154,423)
Balance, December 31	**210,156**	155,497
Total Mandatory and Voluntary surplus appropriations:		
Balance, January 1	**575,000**	662,000
Appropriations during year	**137,000**	38,000
Reclassification to Currency Translation Reserve	**–**	(125,000)
Balance, December 31	**712,000**	575,000

Year ended December 31	**1988**	1987
(in thousands of Canadian dollars)	**$**	$
Surplus		
Balance, January 1	**1,448,596**	1,308,957
Net Income	**247,569**	153,803
	1,696,165	1,462,760
Net adjustment of assets and liabilities due to changes in exchange rates	**–**	23,836
	1,696,165	1,486,596
Transfer to appropriated surplus	**(137,000)**	(38,000)
Balance, December 31	**1,559,165**	1,448,596

Consolidated Statement of Cash Flow

Year ended December 31	1988	1987
(in thousands of Canadian dollars)	$	$
Operating Activities		
Receipts		
Insurance and annuity premiums	**2,891,875**	2,819,693
Net investment income	**1,456,886**	1,342,782
Fee income	**361,880**	273,741
	4,710,641	4,436,216
Applications		
Policyholder benefits	**1,946,324**	2,214,311
Policyholder dividends	**331,656**	276,152
Insurance expenses and taxes	**1,011,398**	947,207
Net change in amounts on deposit	**6,071**	(4,954)
Net change in long-term investments	**1,368,811**	942,746
Net change in policy loans	**6,717**	(9,335)
Net change in miscellaneous assets	**31,746**	(113,520)
	4,702,723	4,252,607
Net cash from operating activities	**7,918**	183,609
Financing Activities		
Increase in borrowed money	**39,000**	–
Investment Activities		
Acquisition of subsidiary company	**–**	61,425
Summary		
Cash and short-term securities on January 1	**756,208**	615,641
Net cash from operations	**7,918**	183,609
Net cash from financing activities	**39,000**	–
Cash applied in investing activities	**–**	(61,425)
Changes due to exchange rate fluctuations	**(45,943)**	18,383
Cash and short-term securities on December 31	**757,183**	756,208

Segregated Funds Consolidated Balance Sheet

December 31	**1988**	1987
(in thousands of Canadian dollars)	**$**	$
Assets		
Bonds	**1,431,726**	1,640,438
Mortgages	**317,263**	306,500
Stocks	**2,344,671**	2,210,412
Real estate	**413,475**	312,180
Short-term securities	**1,117,434**	984,107
Cash	**14,330**	13,136
Investment income due and accrued	**47,450**	50,142
Other assets	**138,919**	32,053
Total assets	**5,825,268**	5,548,968
Liabilities		
Accrued expenses and taxes	**1,087**	559
Other liabilities	**165,976**	61,707
Total liabilities	**167,063**	62,266
Net Assets	**5,658,205**	5,486,702
Applicable to policyholders	**5,654,299**	5,483,142
Applicable to sponsors	**3,906**	3,560
	5,658,205	5,486,702

Segregated Funds Consolidated Statement of Changes in Net Assets

Year ended December 31	**1988**	1987
(in thousands of Canadian dollars)	**$**	$
Net Assets, January 1	**5,486,702**	4,680,371
Additions		
Deposits		
Life insurance	**126,455**	227,087
Annuities	**555,842**	830,645
Investment income	**420,422**	478,510
Net market value gain (loss) on investments	**214,619**	(277,889)
Transfer from sponsors	**353**	2,704
Currency adjustment due to changes in exchange rates	**(296,574)**	180,096
	6,507,819	6,121,524
Deductions		
Payments to policyholders and their beneficiaries:		
Death and disability benefits	**23,588**	19,354
Maturities and withdrawals	**686,794**	497,555
Annuity payments	**54,773**	49,818
Management fees	**64,054**	63,353
Other expenses	**1,558**	1,244
Taxes	**18,847**	3,498
Net Assets, December 31	**5,658,205**	5,486,702

(Amounts in thousands of Canadian dollars)

1. Accounting Principles

The Sun Life Assurance Company of Canada is registered under the Canadian and British Insurance Companies Act, administered by the Office of the Superintendent of Financial Institutions Canada. The Act and associated Regulations govern the Company's financial reporting.

The consolidated financial statements have been prepared in accordance with accounting principles prescribed or permitted by the Act or by Regulation. Certain changes in accounting policy and financial statement presentation have been adopted in 1988. These changes have been introduced in anticipation of generally accepted accounting principles being prescribed for life insurance companies.

The significant accounting principles followed by the Company and the changes made in 1988 are as follows:

Securities Investments

Bonds are valued at amortized cost and mortgages at amortized cost less principal repayments. Stocks are valued at cost adjusted for the aggregate amount of unrealized gains and losses reflected in income. 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 bonds and mortgages are deferred and brought into income, on a consistent yield basis, over the remaining period to maturity. Realized gains and losses on sales of stocks are deferred and brought into income annually at the rate of 15% of the unamortized balance.

In the Health Insurance Fund, bonds are valued at amortized cost, mortgages at amortized cost less principal repayments and stocks at cost. Gains and losses on sales are included in income when realized.

Real Estate

Real estate is valued at cost adjusted for the aggregate amount of unrealized gains and losses reflected in income. Such gains and losses are brought into income annually at the rate of 10% of the excess or deficiency of market over previous adjusted cost. For this purpose, market values are established for each property on the basis of 95% of appraised values. Property appraisals are obtained no less frequently than once every three years, with part of the portfolio appraised annually.

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

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 the Health Insurance Fund, real estate is valued at depreciated cost and gains and losses on sales are included in income when realized.

Policy Loans

Policy loans are carried at their unpaid balance, and are fully secured by the value of policies on which the respective loans are made.

Subsidiaries

Subsidiary companies are accounted for on a consolidated basis.

Segregated Funds

Segregated fund assets are carried at market values.

Commencing in 1988, separate financial statements are provided for segregated fund transactions and balances. Consequently segregated fund transactions are no longer included in the Statement of Operations, other than income earned by the Company from fund management fees and on capital invested in the funds.

Acquisition Costs

Costs of acquiring new insurance and annuities are charged against income as they are incurred. Costs of acquiring new mutual fund sales having a deferred sales charge are deferred and amortized over the applicable period of such charges.

Translation of Foreign Currencies

Revenues and expenditures in foreign currencies, including the amortization of gains and losses on foreign investments, are translated into Canadian dollars at rates approximating the actual rates of exchange during the year. Assets and liabilities are carried at actual market rates of exchange in effect at the end of the year. The net adjustment of asset and liability values resulting from changes in the rates of exchange at the end of the year is reported in the Currency Translation Reserve.

The Company formerly converted assets and liabilities at rates of exchange that approximated but did not equal year-end market rates and the effect of changes in those year-end rates was included in Surplus. The effect of changing to actual market rates of exchange, for the purpose of presenting 1987 assets and liabilities on a comparable basis, was to increase the 1987 currency translation reserve by $18,863. The currency translation reserve, in the amount of $125,000 at December 31, 1987, was formerly included in Appropriated Surplus.

Income Taxes

The Company follows the taxes payable method.

Pension Costs

Pension and other retiree benefit costs are recognized in the Statement of Operations on the basis of benefits earned during the year, taking into consideration anticipated future salary increases of employees.

In 1988 the Company commenced amortizing to income the estimated excess of the market value of plan assets over outstanding retirement obligations. The amortization is made over the average remaining service lives of employees.

The effect of the change on 1988 income was not significant.

(Amounts in thousands of Canadian dollars)

2. Market Value of Invested Assets

December 31	**1988 Carrying Value**	**1988 Market Value**	1987 Carrying Value	1987 Market Value
	$	**$**	$	$
Bonds	**6,727,391**	**6,970,223**	6,536,734	6,564,321
Mortgages	**4,863,468**	**4,775,005**	4,280,698	4,255,407
Stocks	**1,846,719**	**2,174,121**	1,754,024	2,121,909
Real estate	**1,464,874**	**1,901,025**	1,392,901	1,766,207
Cash and short-term securities	**757,183**	**758,061**	756,208	756,208
Other invested assets	**129,297**	**125,644**	130,629	121,109
	15,788,932	**16,704,079**	14,851,194	15,585,161

Market values are as determined by regulatory authorities for year-end reporting purposes.

3. Actuarial Liabilities

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

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.

The Reserves for unmatured obligations and Appropriated Surplus shown on the Consolidated Balance Sheet include the following components:

December 31	**1988**	1987
	$	$
Reserves for unmatured obligations		
Individual life insurance	**3,737,192**	3,653,198
Group life insurance	**305,425**	316,203
Individual annuities	**3,666,198**	3,218,102
Group annuities	**3,639,236**	3,443,924
Health insurance	**869,165**	779,473
	12,217,216	11,410,900
Appropriated Surplus		
Canadian statutory investment valuation reserve	**138,192**	129,014
Canadian statutory valuation reserve for non-admitted assets	**177,014**	163,236
Canadian statutory deficiency or solvency requirements	**89,209**	85,182
Foreign statutory deficiency or solvency requirements	**97,429**	42,071
Mandatory surplus appropriations	**501,844**	419,503
Voluntary surplus appropriations	**210,156**	155,497
	712,000	575,000

(Amounts in thousands of Canadian dollars)

4. *Investment Income*

Investment income has the following components:

Year ended December 31	1988	1987
	$	$
Interest income	**1,320,730**	1,197,311
Dividend income	**86,603**	79,739
Real estate income (net)	**122,925**	106,092
Amortization of deferred realized gains and losses	**117,000**	118,220
Amortization of unrealized gains and losses	**109,671**	87,659
Other items (net)	**(15,368)**	(7,467)
	1,741,561	1,581,554
Investment expenses, taxes and interest expense	**(45,218)**	(37,371)
	1,696,343	1,544,183

5. *Deferred Acquisition Costs*

Deferred acquisition costs amortized and charged to income during the year amounted to $33,200 ($12,489 in 1987).

6. *Company Pension Plans and other Retiree Benefits*

Pension benefits for employees and agents of the Company and most subsidiaries are provided primarily under plans insured with the Company. The major obligations of the Company for pensions are under defined benefit plans. These offer benefits based on years of service and final average earnings.

The status of these and other retirement benefit plans at December 31, 1988 is as follows:

December 31	1988
	$
Obligations for defined benefit plans	**359,205**
Obligations for other retiree benefits	**281,291**
	640,496
Assets funding these obligations	**705,112**
Excess of assets	**64,616**

7. *Lease Commitments*

The Company leases offices and certain equipment. These are operating leases with rents charged to operations in the year to which they relate. Aggregate future rentals payable for the unexpired terms of these leases are:

	$
1989	**40,096**
1990	**40,119**
1991	**36,158**
1992	**28,919**
1993	**25,281**
thereafter	**361,456**
	532,029

8. *Comparative Figures*

As described in Note 1, the Company adopted changes in accounting in 1988 that included: segregated fund assets, liabilities and transactions being presented separately; the foreign currency translation reserve being reclassified as a separate element of surplus; and assets and liabilities denominated in foreign currencies being translated at actual market exchange rates.

The 1987 comparative numbers, presented in these financial statements, have been redetermined and reclassified in accordance with the changes described above.

Valuation Actuary's Certificate

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, 1988 and its other consolidated financial statements for the year then ended.

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 31, 1989

D.L. Gauer

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

Auditors' Report

The Participating Policyholders,
Sun Life Assurance Company of Canada.

We have examined the Consolidated Balance Sheet of Sun Life Assurance Company of Canada, including the separate Consolidated Balance Sheet of its Segregated Funds, as at December 31, 1988 and the Consolidated Statements of the Company's Operations, Surplus and Cash Flow and of Changes in Net Assets of its Segregated Funds 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 financial statements present fairly the financial position of the Company and its Segregated Funds as at December 31, 1988 and the results of the Company's operations and cash flow and the changes in the net assets of its Segregated Funds for the year then ended in accordance with the accounting principles described in Note 1 to the financial statements applied, except as described in notes to the financial statements, on a basis consistent with that of the preceding year.

Toronto, February 8, 1989

Touche Ross & Co.

Touche Ross & Co.
Chartered Accountants

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