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OFFICIAL INSURER TO THE 1988 CALGARY OLYMPIC WINTER GAMES



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Pour obtenir un exemplaire de ce rapport annuel en français, adressez-vous à Crown, compagnie d'assurance-vie.

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HIRO YAKUSHI

Cover: Olympic hopeful Felix Belczyk, a member of Canada's National Alpine Ski Team, will be competing for gold in February 1988. Crown Life is Official Insurer of the Calgary Olympic Winter Games.

Crown Life is an international leader in the provision of personal and corporate financial services. Founded in Canada in 1900, the Company offers a full range of life insurance, health insurance and pension programs to individuals and groups, as well as reinsurance services to other insurance companies.

Crown Life products are offered on both a participating and non-participating basis. Participating policies permit policyholders to share in the income of the participating business by receiving policy dividends.

The Company has operated internationally since 1924 and currently maintains 273 sales and service offices in Canada, the United States, the United Kingdom, the Atlantic and Caribbean Islands and Hong Kong. Subsidiary companies operate in the United States, the United Kingdom, and Trinidad and Tobago.

Crown Life is organized on a profit centre basis by geographical territory and product line. This decentralized structure has created a strong customer focus and an emphasis on service and innovation.

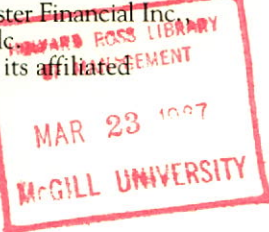
The Company maintains a diverse distribution system. Products are marketed through agents, general agents, group insurance and pension sales representatives, reinsurance sales representatives, brokers and by direct mail.

With assets of \$7.5 billion and \$87 billion of life insurance in force, the Company is in the top two percent of the more than 2,000 life companies operating in North America. The most recent industry surveys rank Crown Life as the ninth largest writer of new individual insurance and the fifth largest life reinsurer in North America.

The Company's soundness and financial strength are illustrated by its Standard & Poor's "AAA" rating for claims paying ability. This rating, the highest granted by Standard & Poor's, indicates "extremely strong capacity to meet contractual obligations". Crown Life continues to receive an "A+" (Excellent) rating from the A.M. Best Company, the highest corporate rating attainable.

Crown Life's major shareholder, Crownx Inc., owns 94.3 percent of the common shares of the Company. Crownx is an integrated service company with operations in three growth areas: financial services, health care and information technology. Crown Life is the major business unit in the Crown Financial Group, which also includes Crown Financial Services Inc., Coronet Trust Company, Caruscan Corporation, and minority interests in Beutel, Goodman & Company Ltd., Lancaster Financial Inc. and Mercantile House Holdings plc.

Inquiries about Crown Life and its affiliated companies are welcomed.







The world's premiere athletes will vie for gold when Calgary hosts the XV Olympic Winter Games in February 1988. This spectacular event will mark the first time that the winter games have been held in Canada.

Crown Life will be there when the games begin. The Company is proud to have been selected as "Official Insurer", providing life and health insurance coverage for athletes, officials and invited guests at the games and pre-Olympic qualifying events.

The Winter Olympics began in 1924 in Chamonix, France, with just 294 athletes from 16 countries in competition. By contrast, the Calgary events will involve more than 1,500 athletes from 50 countries. The games will be watched by 1.6 million spectators, 5,000 media representatives and 1.5 billion viewers around the world via satellite television.

Olympic events will take place in several venues, including the new Olympic Saddledome, a structurally unique building with the world's largest concrete suspended roof, and the Olympic Oval, the world's first fully enclosed 400-metre speed skating oval.

Several events will be held west of Calgary, at scenic Mt. Allan on the eastern slopes of the Rockies, and at the Canmore Nordic Centre near Banff.

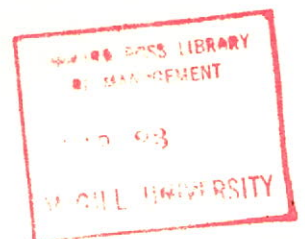
The games will include ten athletic disciplines, including bobsleigh, alpine and cross-country skiing, figure and speed skating, ice hockey and ski jumping, as well as several demonstration events. Calgary also will host a five-week, \$10 million Olympic festival of the performing, visual and literary arts.

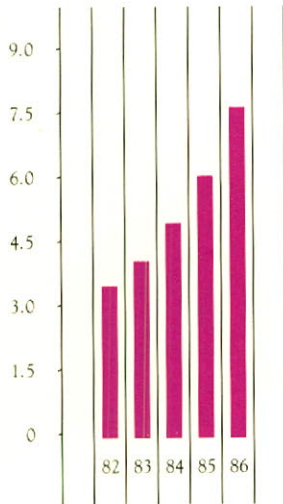
Crown Life has a long tradition of support for amateur sports and for the Canadian Olympic Association. The Company acted as Official Insurer of the Canadian teams at the 1980 and 1984 Olympic games, and will insure them again at the 1988 Summer Olympics at Seoul, South Korea.

Crown Life, its employees and sales associates look forward with eager anticipation to the Company's participation in this exciting international event.

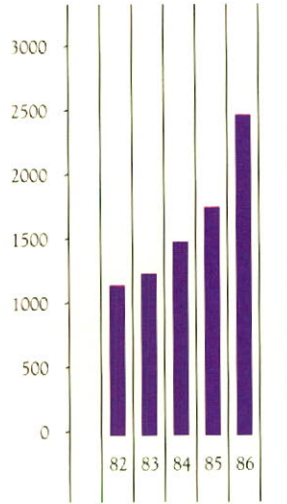


**Calgary 1988
Olympic Winter Games**





Assets
Billions of dollars



Premiums
Millions of dollars

New Business and Business in Force

New business	Life
	Health
	Annuity
Business in force	Life
	Health
	Annuity

Operating Results

Revenue	Premiums
	Investment income
	Other

Policy benefits

Income from operations

Participating policyholders	Dividends
	Loss

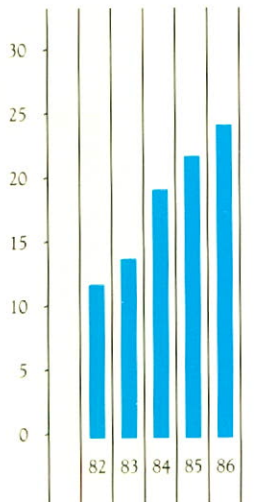
Net income	Preferred shareholders
	Common shareholders

Per Common Share Results (in dollars)

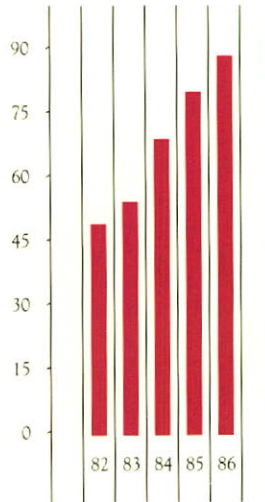
Net income
Shareholders' dividends

Financial Position

Assets	
Equity	Participating policyholders
	Shareholders



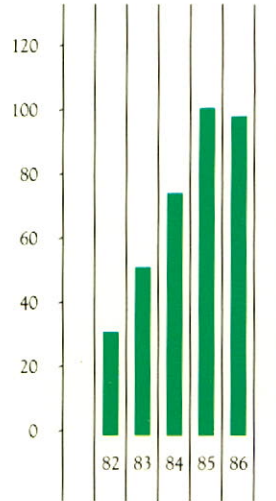
New business
Billions of dollars



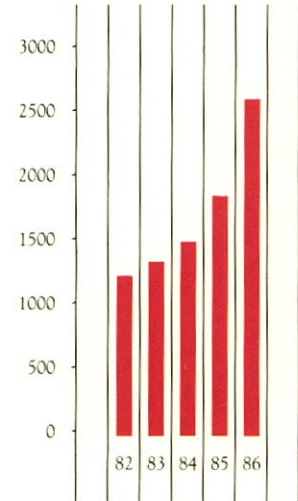
Business in force
Billions of dollars



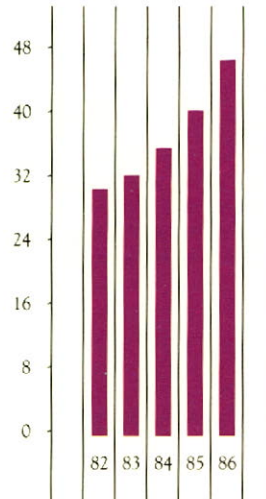
1986	1985
(thousands of dollars)	
24,007,082	21,795,524
86,670	110,037
1,120,705	615,465
86,956,666	78,904,427
427,277	465,276
3,690,024	2,788,190
2,408,621	1,734,978
709,627	546,119
13,112	3,481
3,131,360	2,284,578
2,573,456	1,810,598
98,549	99,712
46,602	40,368
(11,029)	(5,342)
11,406	11,406
29,912	60,267
41,318	71,673
14.96	30.13
6.40	5.00
7,467,513	5,928,956
138,719	149,748
478,024	460,912
616,743	610,660



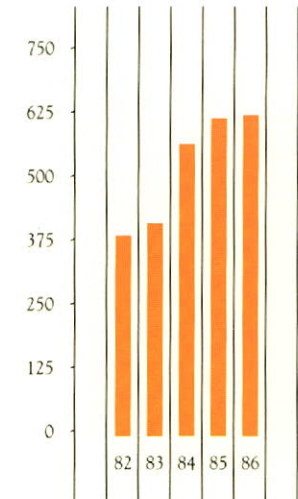
Income from operations
Millions of dollars



Benefits
Millions of dollars



Dividends to policyholders
Millions of dollars



Policyholders' and
shareholders' equity
Millions of dollars

Nineteen eighty-six was a year of change and challenge for the financial services industry and for Crown Life.

During the past year, the Company's employees and sales associates have been tested by a rapidly evolving environment characterized by regulatory change, intensive competition, narrowing margins, significant decreases in interest rates, and a sharp increase in the cost of health care services in the United States.

Despite these challenges, the Company achieved record results in several key areas including revenue, asset growth, investments, new and in force business, and policyholder benefits.

Earnings from combined policyholder and shareholder operations were \$98.5 million, compared to \$99.7 million in 1985. Charges for unusual items amounted to \$21.7 million of which \$16.6 million was attributed to the shareholders' account. In 1985, earnings from unusual items attributed to the shareholders' account amounted to \$4.6 million. Shareholder earnings in 1986, after unusual items, were \$41.3 million compared to last year's record \$71.7 million.

Computer conversion costs and policy liability adjustments related to the Company's United Kingdom subsidiary accounted for \$14.9 million of the 1986 unusual items. These expenses arose from the need to convert systems and to adjust records to accommodate the extremely rapid growth of the subsidiary's operations. The balance of the unusual items relates primarily to an adjustment on foreign currency translation resulting from the recent strengthening of the Canadian dollar.

The year was characterized by excellent overall investment results. Earnings from stocks and bonds reached record levels, and highly favourable results were obtained from the Company's increased emphasis on private placements, real estate and venture investments. Moreover, all areas of Canadian Insurance Operations achieved significant profit improvements, and the U.S. Pensions division improved its earnings from operations while attracting a greatly increased volume of business.

Direct Marketing operations also experienced a very successful year. Fifteen thousand new Crown Life policyholders were added through direct mail programs.

Detracting from profitability were mortgage defaults in soft real estate markets in Texas and a loss incurred in the U.S. Group health insurance business, where increased frequency of claims and higher medical costs exerted severe pressure on margins.

The Company has initiated a number of corrective measures to overcome problems in the U.S. Group health insurance business. These initiatives include product strategies which will enable the Company to obtain a larger share of the less volatile medium-

size group market, as well as partnership in a health care consortium in 40 major U.S. markets which will reduce health care costs.

Group Insurance operations in the U.S. will benefit significantly from Crown Life's acquisition in December 1986 of U.S. Administrators, Inc. of Los Angeles. U.S. Administrators, with more than 950 employees, is the largest third party administrator in the United States and a leading health care cost management company.

In December 1986, Crown Life established a real estate subsidiary, Crown Life Properties Inc. The new company reflects an increased emphasis on real estate investments. Early in 1987, the subsidiary completed a \$125 million preferred share offering to outside investors.

The United States continues to be Crown Life's largest market, accounting for over 70 percent of the Company's premium revenue. In September 1986, the Company announced the relocation of the sales and marketing functions of United States Individual Insurance Operations to its U.S. Executive Center in Alexandria, Virginia. The relocation will enable the Company to respond more rapidly and effectively to changes in the U.S. marketplace.

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H. Michael Burns
Chairman and
Chief Executive Officer



Robert W. Luba
President and
Chief Operating Officer



The Company has announced a three-year initiative to upgrade computer systems and service to policyholders in the United States.

The introduction of the Crown-Net data communications network has improved the Company's ability to transmit computer information. This proprietary network connects Home Office to U.S. Group regional centres and regional Pension offices as well as to 25 U.S. general agencies. In Canada, most Individual agency offices and all Group and Branch offices also are linked.

Financial Highlights

Income from the combined policyholder and shareholder operations totalled \$98.5 million, compared to \$99.7 million in 1985.

The Company incurred a loss of \$21.7 million from unusual items, primarily currency translation and unusual costs associated with the United Kingdom subsidiary. In 1985, there was a gain from unusual items of \$7.0 million, resulting mainly from currency translation.

Net income attributed to shareholders totalled \$41.3 million, down from \$71.7 million in 1985. Net

income per common share, after payment of \$11.4 million to preferred shareholders, was \$14.96, compared to \$30.13 in 1985. Income from operations per common share was \$23.28 in 1986, compared to \$27.84 in the previous year.

Revenue grew by 37 percent to \$3.1 billion. Premium revenue was up 39 percent to \$2.4 billion and investment income increased by 30 percent to \$710 million. During the past year, assets grew by \$1.5 billion to \$7.5 billion, an increase of 26 percent. These record achievements in revenue and asset growth were primarily attributable to very strong growth in sales by the U.S. Pensions division.

Life insurance sales increased by 10 percent to \$24.0 billion, bringing total life insurance in force to \$87.0 billion.

Benefits paid or provided for future payments to policyholders increased by 42 percent to a record \$2.6 billion.

Included in income from operations is income from the participating line of business totalling \$40.6 million.

Dividends paid to participating policyholders amounted to a record \$46.6 million, up from \$40.4 million in the previous year. After payment of policyholder dividends and a loss of \$5.0 million related to unusual items, the participating policyholders' account showed a loss of \$11.0 million, compared to a loss of \$5.3 million in 1985.

ROBERT W. LUBA

Robert W. Luba, C.A., M.B.A., became Crown Life's President and Chief Operating Officer in January 1987. Mr. Luba joined the Company in February 1984, and served most recently as Executive Vice-President, Corporate Finance and Investments for Crown Life and as President of Crown Financial Services Inc. In the latter capacity, he was responsible for the diversification of the financial services operations of Crownx Inc.

Mr. Luba, 45, brings to his position a broad background of experience in finance, development and operations management. Before joining Crown Life, Mr. Luba spent 17 years with John Labatt Limited where he held three senior vice-presidential positions, making an important contribution to the achievement of that firm's status as a diversified multinational marketing company.

Operating Environment

Regulatory changes, including the international trend toward deregulation, are significantly altering the environment in which all financial services companies operate.

In the United States, the Tax Reform Act of 1986 has substantially changed the tax treatment of most investment vehicles. As a result, the relative advantages of life insurance products have improved significantly, when viewed as an investment. Consistent with its important role of providing family protection and prudent estate planning, life insurance products have retained their favourable tax treatment.

In Canada, a more open financial services industry was proposed in the December 1986 federal government policy paper, "New Directions for the Financial Sector". This blueprint for Canada's financial services industry proposes to dissolve the barriers separating insurance, banking, trust and securities firms, and recommends tough new regulations guaranteeing more competition and greater consumer and shareholder protection. As proposed, the relative economic domination permitted to the banks is still a concern for the industry and, in the long run, for the consumer. However, with new consumer and commercial lending and trust powers, insurance companies would have an opportunity to grow in these areas of financial services.

Late in 1986, the Ontario Government introduced pension reform legislation, some of which will take effect early in 1987. The life insurance industry applauds the new legislation covering earlier vesting, portability, survivor benefits and expansion of coverage to part-time employees, changes which generally follow industry recommendations.

In the United Kingdom, the Financial Services Act was introduced. This Act, which is expected to take effect in 1987, provides broad consumer protection and tightens regulation of sales methods for life insurance.

Organizational Changes

Early in 1987, Crown Life's management team was strengthened by a number of organizational changes.

Alan E. Morson was elected Vice-Chairman. Mr. Morson, who had served as President since 1984, will have overall responsibility for the Company's external relations with the community, governments and the insurance industry, for addressing future regulatory developments, and for maintaining the Company's overall service thrust in all territories.

Robert W. Luba was elected President and Chief Operating Officer. Mr. Luba had previously served as Executive Vice-President, Corporate Finance and Investments for Crown Life and as President of Crown Financial Services Inc.

Michael A. Wadsworth was appointed Senior Vice-President, U.S. Insurance Operations. Mr. Wadsworth, who formerly served as Senior Vice-President, Administration for Crown Life and as Executive Vice-President of Crownx Inc., will be responsible for all aspects of U.S. operations, including subsidiaries.

R. Stephen Paddon, Q.C., joined the Company as Vice-President and General Counsel. Mr. Paddon was formerly a Senior Partner of the Toronto law firm of Aird & Berlis.

Brian A. Johnson was appointed Senior Vice-President and Chief Financial Officer. Mr. Johnson has an extensive background in corporate finance, investments and international banking.

Gareth W. Evans, formerly Vice-President, Corporate Planning, was promoted to Senior Vice-President, Planning and Development. He assumes corporate responsibility for Crown Financial Management Limited, the Company's United Kingdom subsidiary.

Late in 1986, The Earl of Westmorland, a long-time Crown Life Director, was elected Chairman of Crown Financial Management.

Board of Directors

This past year saw a number of changes to the Board of Directors.

At the Annual Meeting in March, four Directors, having reached the mandatory retirement age, retired from the Board. Marsh A. Cooper, W. Harvey Cruickshank, Donald G. Willmot and John J. Jodrey had amassed a combined total of 85 years of distinguished service, playing an important role in the Company's success and development. Their wise counsel will be missed.

At the same time, Mrs. Joan H. Addison of Toronto and Dr. Sidney L. Jones of Potomac, Maryland, were elected Shareholders' Directors. Mrs. Addison is the first woman elected to the Crown Life Board.

In June, Robert J. Deyell of Toronto, Chairman of Lancaster Financial Inc., Robert W. Luba of Toronto, now President and Chief Operating Officer of Crown Life, and James A. Pattison of Vancouver, Chairman of the Jim Pattison Group and Chairman of Expo 86, were appointed Shareholders' Directors.

On behalf of the Board of Directors, we extend thanks to all employees and sales associates whose outstanding efforts have contributed immeasurably to the Company's overall success.

Crown Life people are meeting the challenges of our rapidly changing business and developing the strategies essential to future success. We are proud of our people. Their talent and dedication represent our competitive edge.

H.M. Burns
Chairman and
Chief Executive Officer

R.W. Luba
President and
Chief Operating Officer



INSURANCE OPERATIONS

During 1986, revenue from Insurance Operations reached record levels, with premium revenue exceeding \$2.4 billion, up 39 percent from 1985. New business, life insurance in force, policyholder benefits and dividends to policyholders also reached record levels.

Although many of the Company's insurance operations enjoyed favourable results, overall profitability in the insurance lines declined, reflecting a substantial increase in the loss ratio in U.S. Group Health Insurance Operations. These losses resulted from more frequent claims, continued escalation of U.S. health care costs, and severe competitive pressures on rates. Measures have been taken to address these issues, but continuation of these trends will present challenges during the coming year.

During the past year, the Company placed continuing emphasis on improved customer service achieved through research, enhanced data processing systems and the development of innovative new products.

UNITED STATES INSURANCE OPERATIONS

Individual Insurance

Crown Life's individual insurance products are distributed in the United States through a network of general agents covering all major metropolitan areas. This distribution system continues to demonstrate its skill and efficiency by increasing annual sales in the face of growing competition.

For the fourth consecutive year, sales of individual insurance products grew by more than 20 percent. Sales of participating insurance increased by 35 percent, while non-participating sales were up 10 percent over 1985 levels.

During the year, the Company concluded an agreement with Merrill Lynch Life Agency, Inc., under which Crown Life general agents and Merrill Lynch jointly market Crown Life's individual insurance products throughout the United States.

In 1986, considerable emphasis was placed on improvement of automated systems to provide better service to policyholders and to general agents and brokers throughout the United States. Over the next three years, the Company will invest an additional \$5.5 million to improve systems to state of the art levels and thereby enhance customer service.

The Company will bring key operations closer to its customers by moving the sales and marketing functions of U.S. Individual Insurance Operations to the U.S. Executive Center in Alexandria, Virginia, during the second quarter of 1987.

The Company is developing innovative participating products for introduction early in 1987. These products are designed to penetrate the low-premium,



Late in 1986, Crown Life acquired controlling interest in U.S. Administrators, Inc. Attending the official closing ceremony were: Robert Luba (seated at left) and Alan Morson (standing at right) and senior executives of U.S. Administrators, Samuel Kaplan (seated), Matthew Kaplan and Millard Stiles Jr.

permanent plan market. The Crown Life Advanced Sales Support (CLASS) package, introduced early in 1987, backs up these products.

Proposed new products would allow policyholders to take advantage of the new United States tax laws.

Group Insurance

After two years of very strong earnings, a downturn in the U.S. group insurance market adversely affected 1986 results.

While many companies in the industry maintained low rates in an attempt to maintain or increase market share, Crown Life adopted a pricing strategy which reduced business volumes in the short-term but produced improvements in claims experience by year-end, and which should result in regained market share in 1987.

The insurance brokerage community is enthusiastic about two new products introduced in 1986. "FRED", launched early in the year, is a fully insured cost-plus funding plan for medium-sized groups of up to 150 lives. The second product, the Account Management Plan, monitors and manages group insurance accounts and is the first comprehensive account management plan on the market.

Additionally, Crown Life has made enhancements to "Partner", its alternative funding product for large accounts.

During the past year, a participative management program, "Eye of the Client", was successful in soliciting and implementing employee suggestions for improved service.

Diversification into related areas continues to offer synergies with the group insurance business, and the Company is very optimistic about potential benefits from the recent purchase of U.S. Administrators, Inc.

Additionally, Private Healthcare Systems Ltd., a managed health care company in which Crown Life is a general partner, successfully began the expansion of its network of hospitals and providers into 40 major markets. This company, which controls health care costs by such methods as the negotiation of volume discounts, allows the division to compete effectively with health maintenance organizations, integrated hospital corporations and other preferred provider organizations. Crown Life's participation in this partnership has given the Company the tools to expand its managed care capabilities. Most new accounts now feature benefit plans that make use of preferred provider networks or other forms of cost control.

Medical Care Management, Inc., a recently established subsidiary, significantly expanded its operations during the year. This company performs development, review, audit, "wellness" and claim payment functions of health care management.

The Company will continue to emphasize development of managed health care initiatives and balancing of the division's portfolio to maximize profit margins. The Company's overall strategy is to move its U.S. group business from an indemnity basis to an arrangement whereby the risk element will be shared by client firms, thereby assuring greater control of medical plan costs and utilization.

In 1987, the division will further diversify its product line with a new long-term disability product.

Pensions

The U.S. Pensions division achieved record sales in 1986. An increase of 122 percent over the previous year brought sales over the one billion dollar level.

Despite severe competitive pressures on rates, particularly in the qualified markets, U.S. Pensions emphasized profitability ahead of market share, and was able to maintain or improve margins on all new business.

While operating results improved over 1985, the division incurred a loss as a result of a significant investment in data processing and defaults in the Company's mortgage portfolio.

10

Preservation.

Assets are not like peaches. They cannot be preserved by putting them on a shelf. In fact, a safety policy is needed to maintain the value of assets in the face of many changing factors, such as inflation.

Crown Life is expert in asset preservation. One of North America's leading insurers, we are concerned with maintaining a solid asset base for our clients' financial security. At the present time, this asset base exceeds \$1 billion. Our success in managing this asset portfolio has already earned us Standard and Poor's highest rating for claims paying ability. A.A.A.

Agents are not the only thing we can do about preserving. Our wide range of investment products may attract clients, but Crown's experience and our Assets plan, the well-built foundation of our investment products to suit client needs, is the real answer. Like this, we have kept us ahead in a competitive market.

If your present fixed income investment portfolio is not doing the job for you, get there on the world and come to Crown Life. We can help you with your preservation strategy. Call toll-free the new information line.

1-800-237-4134

CrownLife

Crown Life's U.S. advertising program is directed to agents and brokers through trade publications.



Over 22 million visitors caught the spirit of Vancouver's highly successful world exposition. Crown Life was associated with Expo 86 as Official Insurer and a corporate sponsor.



Effective coordination with other areas of the Company, particularly Investment Operations, ensured an adequate supply of investments at competitive rates. The increased use of private placements was one of the initiatives that permitted diversification of the portfolio backing profit centre liabilities, while maintaining investment grade quality and an appropriate matching of assets and liabilities.

A major strength of U.S. Pensions has been its distribution system. This system was enhanced during 1986 with the implementation of incentives which allowed field staff to participate in the division's profitability as well as sales success.

The division made significant progress in integrating its data processing systems with other corporate databases. When this process is complete in 1987, employees will have on-line access to all policy-related data.

In future, market expansion and the exploration of new opportunities, particularly the sale of pooled funds, will broaden the division's product base and strengthen its position as a quality provider of financial services.



In 1986, the Weinrot family of Los Angeles, California, celebrated fifty years of association with Crown Life. Co-general agents Ed Weinrot (centre) and Stan Weiner (left) are shown here with Alan Morson, Vice-Chairman.

UNITED STATES SUBSIDIARIES

Crown America Life Insurance Company

Crown America Life Insurance Company markets to stockbrokers and insurance brokers in the United States through general agents. Certain general agencies act as regional service centres to provide local administrative and sales support to regional stock brokerage firms.

Crown America's initial product, "Asset", is a single-premium variable life plan that had been approved by 42 states by the end of 1986. Variable life offers a choice of investment funds. A minimum death benefit is guaranteed, and both benefits payable and cash values depend on the performance of the funds.

In 1987, Crown America will concentrate on broadening its distribution system and product line.

American Crown Life Insurance Company

American Crown Life Insurance Company operates in New York State. In 1986, this company showed that it could successfully market products in the major New York marketplace. It achieved significant revenue growth with a universal life product designed for the payroll deduction market, and a competitive individual disability plan.

Private Ledger Financial Services, Inc.

Private Ledger Financial Services, Inc. broadens the Company's financial services operations in the United States. A broker-dealer, Private Ledger sells a broad range of investment-related products through 730 registered representatives. These representatives, many of whom are Certified Financial Planners, sell mutual funds, stocks, bonds, tax shelters and other investment products.

U.S. Administrators, Inc.

In December, the Company acquired an 80 percent interest in U.S. Administrators, Inc., the largest third party health claims administrator in the United States. U.S. Administrators is a pioneer in quality assurance and health care cost management services. It serves numerous Fortune 500 companies, unions, government agencies and public utilities, nationwide.

This acquisition places Crown Life in the very large case market in group health insurance, and reduces its concentration in the highly cyclical small case market. Involvement across the full spectrum of group cases will produce important benefits for Crown Life. Both companies will achieve competitive





advantages through synergies including administrative economies of scale, cooperative data processing and claims cost management and control procedures.

CANADIAN INSURANCE OPERATIONS

Individual Insurance

During 1986, the Canadian Individual Insurance division achieved substantially increased earnings.

The Company added a series of enhancements to the highly successful Plan for Life, a unique and flexible financial services product that combines life insurance, disability insurance and a savings plan. It also introduced a very competitive participating product, Term Plus II.

A new strategic marketing direction has been developed, utilizing a strengthened career agency system to focus on the core business of life insurance and annuities. Additionally, sales are being pursued through brokerage firms.

Working closely with Investment Operations, the division achieved a matching of assets and liabilities for the annuity business, as well as improved investment yields on those assets.

The introduction of a new strategy relating to existing business produced dramatic improvements in customer retention.

Canadian Individual operations also launched an operational audit of all administrative procedures and practices, with the goal of improved productivity and customer service.

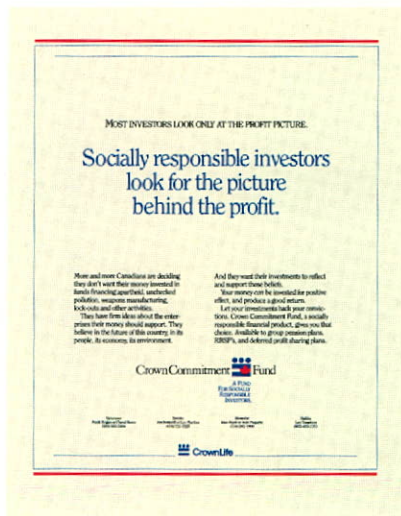
Group Insurance

Earnings of the Canadian Group Insurance division increased substantially in 1986 over the previous year, as a result of investment income growth and favourable underwriting results.

The division launched a new long-term disability product, Crown Care, supported by sophisticated adjudication and rehabilitation procedures. This product supports the division's strategic thrust in the long-term disability line.

During 1986, new service standards were introduced. Customer surveys, conducted to audit the results, demonstrated significant improvements in client satisfaction. The division also was reorganized to take maximum advantage of new administrative and claims systems adopted during the year.

In 1987, the division will build on its foundation of quality service and innovative products. It will expand into short-term disability products and new fee income products.



The Crown Commitment Fund, launched in September 1986, is Canada's first nationally available ethical fund. The fund invests in the securities of companies demonstrating social, moral and ethical responsibility.

Pensions

The Pensions division achieved record new business sales in 1986. Earnings in this line also grew substantially.

Canadian pooled funds, especially the equity and mortgage funds, performed well. The division also launched two new pooled funds in 1986, a Balanced Fund and the Crown Commitment Fund. The latter invests in Canadian companies which demonstrate social, moral and ethical responsibility. Evaluations are based on five criteria: corporate citizenship, employee relations, weapons manufacturing, South African trade and environmental sensitivity. The Fund is designed to allow pension plan sponsors, trustees and participants in group RRSPs to make socially responsible investments.

The division achieved significant improvements in productivity and client service as a result of its investment in new computer systems, streamlined administration, and employee training and development programs.

In 1987, Canadian Pensions will continue to market itself as a specialist in large group RRSPs and as a major player in the competitive pension business in Canada. Its status as such was recently demonstrated when Crown Life was chosen to manage the rapidly growing 2,000-member pension plan of Transport Route Canada.

Direct Marketing

In its second full year of operation, the Direct Marketing division achieved outstanding results, generating over 15,000 new sales and annualized premium income of \$3.5 million. A number of new promotions were implemented during the year, with the endorsement of such organizations as provincial affiliates of the Canadian Automobile Association, the Royal Canadian Legion and Canadian Tire Acceptance Corporation.

The division anticipates very rapid growth as it expands its product lines and broadens the scope of its operations beyond Canada.

INTERNATIONAL OPERATIONS

In the United Kingdom, Crown Financial Management Limited is the holding company that owns Crown Life Assurance Company and its affiliated companies. Crown Life holds a 71 percent interest in Crown Financial Management, which has assets of \$854 million and \$6 billion of life insurance in force.

The company achieved a significant increase in premium revenue in 1986, but incurred substantial

losses, due in part to the need to convert systems and adjust records in order to accommodate this significant growth in new business. The company expects to complete conversion of its records and show sharply improved financial results in 1987.

In Trinidad and Tobago, Crown Life (Caribbean) Limited earnings from life insurance operations continued their upward trend, despite an economy depressed by the fall in oil prices. The directors will recommend to shareholders, at the annual general meeting, the payment of the company's first shareholders' dividend.

At year-end, Crown Life exchanged its 50.1 percent interest in Crown Eagle Life Insurance Company Limited of Jamaica for shares in Eagle Merchant Bank of Jamaica Limited. The latter company was Crown Life's partner in Jamaica. Crown Life will continue to offer technical support for a period of time, but will not be directly involved in the writing of life insurance in Jamaica.

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More than 900 Crown Life employees were among 2.6 million Canadians taking part in the Crown Life PARTICIPAction Challenge on May 28, 1986.



REINSURANCE OPERATIONS

The Reinsurance division, comprising Life Reinsurance, Financial Reinsurance and Special Risk Reinsurance operations, continued to earn a major market share in North America.

Life Reinsurance sales totalled \$10.5 billion, net of amounts retroceded to other companies, compared to \$11.0 billion in 1985. The Financial Reinsurance operations achieved record profits in a market much diminished by regulatory and tax changes.

Special Risk premium income doubled for the second year in a row, while profit margins increased. This market includes such products as catastrophe reinsurance, abnormal mortality stop loss, student accident and convention coverage, and excess major medical reinsurance.

During 1987, the Reinsurance division will continue to investigate potential markets in additional geographic locations.

INVESTMENTS

The Investment division manages the assets of Insurance Operations, as well as the Corporate assets which represent the Company's capital and retained earnings.

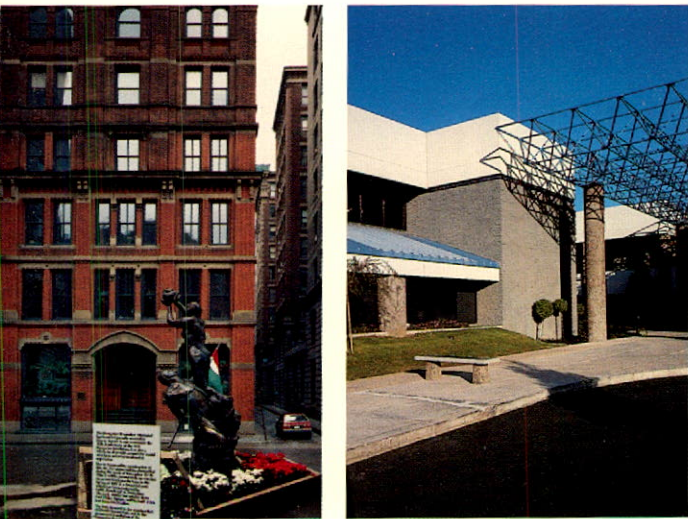
The assets of Insurance Operations are held primarily in fixed-term bonds and mortgages, which match the liability structure of Crown Life's insurance policies. During 1986, the Company was very successful in diversifying these matching assets. Crown Life substantially increased its purchase of American and Canadian private placements; further increased highly liquid assets, the yield of which can be improved by active trading; and began holding some common stocks to fund part of the very long-term insurance liabilities.

The Company's Corporate assets are managed to maximize rates of return and therefore have a much larger equity and real estate component. Corporate investment results contributed very significantly to earnings during 1986.

Investments under management at December 31, 1986 reached \$7.0 billion, up from \$5.5 billion at the end of the previous year. Approximately three-quarters of total assets are held in reserve for Insurance Operations; one-eighth for other liabilities; and the balance consists of participating policyholders' and shareholders' equity. Investment income, net of related expenses, increased to a record \$710 million in 1986 from \$546 million in 1985. Investment management returns for the unitized funds were above expectations, and economic forecasts indicate another year of strong market performance in 1987.

To assist the Company's planning and to set the overall investment framework, the office of Chief Economist was established during the year. Other additions to staff significantly strengthened Crown Life's ability to negotiate private placements, to underwrite new mortgages, and actively to manage its investments in public bonds and its rapidly growing portfolio of venture investments.

During 1986, Crown Life committed over \$770 million in new commercial mortgages in the United States, as well as over \$150 million in Canada, the latter figure representing the Company's largest overall commitment in a single year in Canada. A mortgage arrears position in Texas resulted from the unexpected combination of weak petroleum, agriculture and technology markets. Crown Life's geographic diversification (Texas mortgages comprise only eight percent of total mortgages) and



Crown Life's \$3 billion mortgage portfolio includes 55 Kilby Street in Boston's historic financial district (left) and the 65,000 square foot Metroplex Office Center in Phoenix, Arizona.





Pictured at left is the office tower of the Place du Parc complex in Montreal, Quebec. The complex was acquired by Crown Life Properties Inc., the Company's newly formed real estate subsidiary.

the quality of the underlying properties will allow a satisfactory resolution of problem cases. Meanwhile, all other mortgage areas are in excellent condition, with arrears rates well below the American and Canadian industry averages.

The Company's activity in the public bond market contributed to excellent investment results on both Insurance and Corporate assets. In aggregate, bond purchases and sales amounted to \$3.3 billion during 1986, while money market activity was \$4.5 billion. Bond earnings were further increased through an active program of certificate lending in Canada and the trading of repurchase agreements in the United States. Crown Life also purchased \$220 million of private placements during 1986, up from \$74 million in 1985. The weighted average rating of these issues was A+.

The special investments group purchased new ventures aggregating \$10.9 million, and sold mature holdings totalling \$6.3 million for net new investment of \$4.6 million.

Segregated Fund assets under management rose by 82 percent during 1986. This growth was attributable to another year of excellent investment performance, aided by the creation of the new Balanced Fund and the Crown Commitment Fund, the first national Canadian pension fund for socially conscious investors. In the United States, sales of the Crown America Series Funds made good progress. The Company is in the process of acquiring a license to sell these products in California, an important market for these funds.

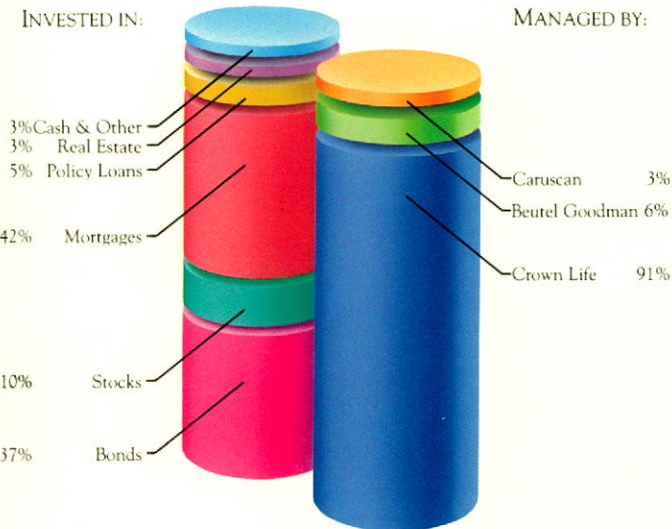
Crown Life's real estate activities also advanced during the year, culminating in the establishment of a wholly-owned subsidiary, Crown Life Properties Inc. This company will raise Crown Life's profile in real estate markets and will serve as the focus of Canadian real estate assets. It already has enabled Crown Life to finance real estate acquisitions on very favourable terms by issuing five million 7.375% Cumulative Redeemable Retractable Preferred Shares, Series 1, to outside investors, for \$125 million cash.

Part of the proceeds was used to purchase the Place du Parc complex in Montreal, which contains a 400,000 square foot office tower, 335,000 square feet of retail space and a 1,000-vehicle parking facility.

In addition, construction of Phase I of Crown Life Place at Bloor and Church Streets in Toronto commenced in February 1987. The first tower will comprise 16 stories with 295,000 square feet of office space. When complete, Crown Life Place will consist of two towers, linked by an elegant Galleria.

INVESTED ASSETS

\$7 Billion



CORPORATE ACTIVITIES

During the past year, Crown Life initiated a number of important corporate activities to improve its human resources programs, to enhance consumer awareness of the Company, and to develop leading-edge technology and systems for its business units.

Human Resources Programs

Recognizing people as its greatest asset, the Company continued to strengthen its human resources initiatives during the year.

The General Management Development Program was held at Bishop's University in Lennoxville, Quebec, for the fourth consecutive year. The four-week course was attended by two dozen high-potential Crown Life middle and senior managers. The course will be offered again in 1987, as will other focused training and development programs for employee groups.

A succession planning process was developed in 1986 and introduced at the executive level. This initiative will be supplemented in 1987 with a more comprehensive program to identify and develop the potential of talented individuals within the Company, as well as an improved performance appraisal system.

Employee relations also were emphasized in 1986. The "Crowning Touch" program was introduced to recognize employees who demonstrate outstanding performance in various categories.

Information Systems

All areas rely on advanced systems to meet the Company's high standards of efficiency and service. Each business unit is making significant investments in new and improved uses of information for strategic and competitive advantage.

Despite extremely high growth rates in the demand for computer services and resources in an increasingly on-line environment, computer costs will be reduced for 1987, while commitments to service levels have been raised.

In computer operations, the move to the use of a dedicated National Advanced Systems computer has given Crown Life a significant improvement in its price/performance ratios for computer services.

The U.S. and Canadian telecommunications network, Crown-Net, has provided a modern high-speed transport mechanism for service distribution. This network will form the basis for further cost benefits through the integration of long distance voice information with data traffic.

The rapid deployment of new technology in electronic mail, telecommunications networks, computers and intelligent workstations is expected to keep Crown Life in a sound competitive position to deliver new products and services.

Community Relations

Crown Life continued its active community relations program in 1986. A highlight of the year was the Company's association with Expo 86 as both a corporate sponsor and as "Official Insurer", providing insurance coverage to the exposition's 22 million visitors. The Company also will be the Official Insurer of the 1988 Olympic Winter Games at Calgary, Alberta.

The Crown Life PARTICIPaction Challenge, a coast-to-coast project to create awareness of the benefits of regular physical activity, involved more than 2.6 million Canadians in 1986. The Company also has sponsored the Crown Life Pro-Am, a benefit golf tournament in Canada and the United States that has raised \$759,000 for charities and amateur golf over the past 14 years.

In May, the Company was the principal corporate sponsor of the George Washington Parkway Classic 15km race, held in Alexandria, Virginia.

Crown Life, through its donations program, continues to support a wide variety of charitable organizations. Contributions are focused in the areas of higher education, health research and community support.

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Janie Stevenson
Tampa Regional Center



Rose Thibault
Mortgage Investments

The Crowning Touch awards program recognizes employee achievement in five categories. Pictured here is a cross-section of 1986 winners. The program is symbolized by a specially commissioned sculpture entitled "Reaching".



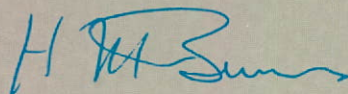
Liliana Di Vizio
Human Resources

Victor Arnaud
Canadian Individual Actuarial Services

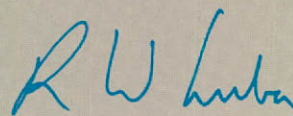
CROWN LIFE INSURANCE COMPANY

Assets	December 31	1986	1985
		(thousands of dollars)	
Invested assets	Bonds	2,493,852	1,901,427
	Shares	387,762	305,352
	Mortgage loans	2,947,811	2,364,225
	Real estate	233,800	118,216
	Loans to policyholders	333,966	330,149
	Cash and short-term deposits	140,121	212,135
	Other	58,544	56,331
	Segregated investment funds	419,431	230,546
		7,015,287	5,518,381
Other assets	Accrued investment income	93,341	82,655
	Premiums receivable	58,689	71,875
	Amounts receivable under financial reinsurance agreements	172,452	181,377
	Agents advances	24,722	27,395
	Other	103,022	47,273
			452,226
		7,467,513	5,928,956

On behalf of the Board



H.M. Burns
Chairman



R.W. Luba
President

CONSOLIDATED BALANCE SHEET

Liabilities	December 31	1986	1985
		(thousands of dollars)	
Policy liabilities	Provision for future policy benefits	5,017,968	3,964,012
	Policyholders' funds on deposit	147,285	132,859
	Benefits payable and provision for unreported claims	145,389	167,946
	Provision for policyholders' dividends	35,253	29,060
	Segregated investment funds	419,431	230,546
		5,765,326	4,524,423
Other liabilities	Bank indebtedness	302,632	116,585
	Amounts payable under financial reinsurance agreements	367,944	418,993
	Other	414,868	258,295
		6,850,770	5,318,296
Policyholders' and shareholders' equity			
	Share capital (note 3)	127,000	127,000
Retained earnings	Appropriated, primarily for statutory purposes (note 4)	311,925	298,253
	Unappropriated	177,818	185,407
		489,743	483,660
		616,743	610,660
		7,467,513	5,928,956

CONSOLIDATED STATEMENT OF INCOME

Year ended December 31		1986	1985
		(thousands of dollars)	
Revenue	Premiums	2,408,621	1,734,978
	Investment income (note 5)	709,627	546,119
	Other	13,112	3,481
		3,131,360	2,284,578
Policy benefits	Policy benefits	1,298,296	1,091,375
	Provision for future policy benefits	1,275,160	719,223
		2,573,456	1,810,598
Expenses	Commissions, salaries and other operating costs	438,252	353,410
	Taxes – income, premium and other (note 6)	21,103	20,858
		3,032,811	2,184,866
Income from operations		98,549	99,712
Unusual items (note 7)		(21,658)	6,987
		76,891	106,699
Dividends to policyholders		46,602	40,368
Participating policyholders' loss		(11,029)	(5,342)
Net income		41,318	71,673
Attributable to	Preferred shareholders	11,406	11,406
	Common shareholders	29,912	60,267
Earnings per common share (in dollars)	Income from operations	23.28	27.84
	Net income	14.96	30.13

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended December 31		1986			1985
(thousands of dollars)					
		Participating policyholders	Shareholders	Total	Total
Appropriated	Balance, beginning of year	56,516	241,737	298,253	295,512
	Transfer (to) from unappropriated	22,217	(8,545)	13,672	2,741
	Balance, end of year	78,733	233,192	311,925	298,253
Unappropriated	Balance, beginning of year	93,232	92,175	185,407	143,223
	Net income (loss)	(11,029)	41,318	30,289	66,331
		82,203	133,493	215,696	209,554
	Dividends to shareholders	—	24,206	24,206	21,406
		82,203	109,287	191,490	188,148
	Transfer (to) from appropriated	(22,217)	8,545	(13,672)	(2,741)
	Balance, end of year	59,986	117,832	177,818	185,407
Retained earnings		138,719	351,024	489,743	483,660

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(Excluding Segregated Investment Funds)

Year ended December 31		1986	1985
		(thousands of dollars)	
Sources of cash	From operations		
	Net income	41,318	71,673
	Non-cash items		
	Increase in policy liabilities	1,197,218	604,276
	Other	(140,056)	39,097
		1,098,480	715,046
	Investment in non-consolidated subsidiaries	243	3,749
	Increase in other liabilities	117,821	85,663
		1,216,544	804,458
Uses of cash	Invested assets acquired, net of sales or maturities	1,340,475	759,453
	Investment in U.S. Administrators, Inc.	6,319	—
	Investment in non-consolidated subsidiaries	—	3,108
	Dividends to shareholders	24,206	21,406
	Other	103,605	8,288
		1,474,605	792,255
	Increase (decrease) in cash position	(258,061)	12,203
	Cash position, beginning of year	95,550	83,347
	Cash position, end of year	(162,511)	95,550
Represented by:	Cash and short-term deposits	140,121	212,135
	Bank indebtedness	(302,632)	(116,585)
		(162,511)	95,550

1. Summary of Significant Accounting Policies and Practices

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting practices prescribed or permitted by the Department of Insurance of Canada. These accounting practices vary from generally accepted accounting principles primarily with respect to investment valuation, the translation of amounts denominated in foreign currencies and accounting for income taxes.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and wholly-owned Crown America Holding Company, Coronet Properties Limited, Clico Properties Limited, Crown Life Properties Inc. and 71% owned Crown Financial Management Limited.

The accounts of Private Ledger Financial Services, Inc., and 49% owned Crown Life (Caribbean) Limited are included in these consolidated financial statements using the equity method of accounting.

Assets and liabilities of subsidiaries are valued in accordance with accounting practices prescribed or permitted by regulatory authorities of the jurisdictions in which the subsidiaries are domiciled.

Foreign currency

Amounts denominated in foreign currency are translated into Canadian dollars at rates of exchange which approximate current exchange rates. Translation gains and losses which arise from adjusting these rates of exchange are included in income in the year the adjustment is made.

Invested assets

The Company holds investments for both its life and health insurance business and these are accounted for as follows:

A. Life insurance business

- (i) Bonds are carried at cost and mortgage loans at outstanding principal balances, both of which are adjusted for unamortized discounts and gains and losses on disposal.

Realized gains and losses on sales of bonds and mortgage loans are deferred and amortized over the period to maturity of the asset sold.

- (ii) Shares are carried at cost, adjusted to include the unamortized portion of realized gains and losses.

Realized and unrealized gains and losses on investments in shares are taken into income on a 15% declining balance basis.

- (iii) Real estate is carried at market value less encumbrances, adjusted to include the unamortized portion of realized and unrealized gains and losses.

Realized and unrealized gains and losses on real estate are taken into income on a 10% declining balance basis.

Prior to 1986, real estate was carried at cost less encumbrances and accumulated depreciation. The current policy has been applied prospectively as of January 1, 1986 and does not have a significant effect on the financial statements.

B. Health insurance business

- (i) Bonds are carried at amortized cost and mortgage loans at outstanding principal balances adjusted for unamortized discounts.

- (ii) Shares are carried at cost.

- (iii) Realized gains and losses on disposal are taken into income in the year of disposal. Unrealized gains and losses are not recognized.

Segregated investment funds

Certain policy contracts allow the policyholder to reinvest in separate investment funds managed by the Company for the benefit of these policyholders. In accordance with statutory requirements, the assets of these funds are carried at their year-end market values, and a corresponding amount is reported as a liability on the balance sheet. The investment income from these funds includes all realized and unrealized gains and losses and is reflected in investment income, net of related expenses. Any increase in segregated investment fund liabilities is reported as an expense in the year of change.

Policy liabilities

Policy liabilities are amounts required for the servicing of benefits under the Company's insurance and annuity policy contracts. The most significant item in this category is the provision for future policy benefits.

The provision for future policy benefits represents the amount which, in the judgment of the Valuation Actuary, together with future premiums and investment income, is required to provide for benefits, administrative expenses and taxes on insurance and annuity policies. This amount is calculated using interest, mortality and other assumptions considered to be appropriate to the circumstances of the Company and recognizes the deferral of certain costs of acquiring policies. In formulating these assumptions, consideration is given to past experience of the Company and that of the life insurance industry. This experience is monitored on an ongoing basis and, when appropriate, policy liabilities are adjusted to reflect changed circumstances. Such adjustments are included in income in the year of change.

Income taxes

Income taxes are calculated using the taxes payable method, whereby income taxes are provided on taxable income rather than on financial statement income.

2. Investment in Subsidiaries

(i) Effective December 16, 1986, Crown America Holding Company purchased 80% of the outstanding common shares of U.S. Administrators, Inc., a cost management company specializing in the administration of health plans.

Total assets acquired were \$8,662,000; total liabilities assumed were \$26,999,000; and the purchase price was \$6,319,000, resulting in goodwill of \$24,656,000.

The acquisition has been accounted for by the purchase method and earnings from the date of acquisition have been included in the operating results of the Company.

Crown America Holding Company has undertaken to make cash payments to the minority shareholders of U.S. Administrators, Inc. to a maximum of \$26,600,000 over a five year period. Such payments are contingent upon the achievement by U.S. Administrators, Inc. of specific revenue objectives.

(ii) In December 1986, the Company exchanged its 50.1% interest in Crown Eagle Life Insurance Company Limited for 1,515,780 Non-voting Common Shares of Eagle Merchant Bank of Jamaica Limited having a value of \$450,000 and subscribed for an additional 1,684,220 Non-voting Common Shares for \$500,000.

(iii) The purchase price for the Company's investment in its subsidiary, Private Ledger Financial Services, Inc., will be based on market value as determined by an independent appraisal. Settlement will be made by the application of amounts originally loaned and paid to its former parent aggregating \$13,435,000. To the extent, if any, that the purchase price is less than this amount, the Company will be an unsecured creditor of the former parent, which is in receivership. The Company has provided for potential losses on the amounts advanced.

(iv) In December 1986, the Company established Crown Life Properties Inc. and in January 1987, Crown Life Properties Inc. issued five million 7.375% Cumulative Redeemable Retractable Preferred Shares, Series I to outside investors for \$125,000,000 cash.

3. Share Capital

			1986	1985
			(thousands of dollars)	
Authorized	10,000,000	Class I preferred shares, par value of \$25		
	2,400,000	Class II preferred shares, par value of \$100		
	5,000,000	Class A shares, non-voting, par value of \$1		
	5,000,000	Common shares, par value of \$1		
Issued	5,000,000	\$2.28 Class I cumulative preferred shares, Series A retractable on September 30, 1989 at par	125,000	125,000
	2,000,000	Common shares	2,000	2,000
			127,000	127,000

4. **Retained Earnings**

The Company is required by the Department of Insurance of Canada to make certain appropriations of retained earnings. The Company makes additional appropriations for prudent business reasons.

	1986	1985
	(thousands of dollars)	
Appropriated retained earnings consist of:		
Investment values and currency exchange	71,669	50,837
Excess of cash surrender values over policy liabilities	153,885	126,465
Non-Canadian additional statutory requirements	17,184	48,378
Canadian additional statutory requirements	7,378	15,009
Value of miscellaneous assets	47,029	42,784
Specified contingencies	2,780	2,780
General contingencies	12,000	12,000
	<u>311,925</u>	<u>298,253</u>

5. **Investment Income**

Investment income was derived from the following sources:

	1986	1985
	(thousands of dollars)	
Bonds	188,799	163,598
Shares	103,714	68,363
Mortgage loans	318,027	236,836
Real estate	8,276	4,866
Loans to policyholders	20,394	19,589
Short-term deposits	18,653	9,018
Other	12,160	13,529
Segregated investment funds	59,590	42,182
	<u>729,613</u>	<u>557,981</u>
Expenses	19,986	11,862
	<u>709,627</u>	<u>546,119</u>

6. **Taxes – income, premium and other**

	1986	1985
	(thousands of dollars)	
Income taxes (recovery)	(2,126)	434
Premium and other taxes	23,229	20,424
	<u>21,103</u>	<u>20,858</u>

7. **Unusual Items**

	1986	1985
	(thousands of dollars)	
Gain (loss) on foreign currency translation	(5,877)	10,500
Provision for loss and write-down of asset values	(885)	(3,513)
Computer conversion costs, Crown Financial Management Limited	(11,670)	—
Policy liability adjustments, Crown Financial Management Limited	(3,226)	—
	<u>(21,658)</u>	<u>6,987</u>

8. **Related Party Matters**

In 1986 and 1985, the Company leased real estate to a subsidiary of Crowntek Inc. for \$1,295,000 and paid that subsidiary \$15,925,000 (1985 \$13,776,000) for computer services. Included in other invested assets are 729,500 Class A shares of Crowntek Inc., at a value of \$19,405,000 (1985 \$19,696,000).

9. Pension Plans

The Company has several pension plans. As at December 31, 1986, the aggregate actuarial surplus of these plans is estimated to be \$5,300,000.

10. Contingent Liabilities

From time to time in connection with its operations, the Company and its subsidiaries are named as defendants in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, such actions have generally been resolved with minimal damages or expense in excess of amounts provided or policy reserves and the Company does not believe that it will incur any significant additional loss or expense in connection with such lawsuits.

11. Comparative Figures

Certain 1985 amounts have been reclassified to conform with the financial statement presentation adopted in 1986.

Auditors' Report

To the Policyholders and Shareholders of Crown Life Insurance Company

We have examined the consolidated balance sheet of Crown Life Insurance Company as at December 31, 1986 and the consolidated statements of income, retained earnings and changes in financial position 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.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with accounting practices described in note 1 to the financial statements applied on a basis consistent with that of the preceding year.

Thorne Ernst & Whinney

Toronto, Canada
February 10, 1987

THORNE ERNST & WHINNEY
Chartered Accountants

Valuation Actuary's Report

To the Policyholders and Shareholders of Crown Life Insurance Company

I have made the valuation of policy liabilities of Crown Life Insurance Company and its United States subsidiary insurance companies for its consolidated balance sheet as at December 31, 1986 and its consolidated statement of income for the year then ended. In my opinion, the valuation conforms to the Recommendations for Insurance Company Financial Reporting of the Canadian Institute of Actuaries.

In regard to the consolidated policy liabilities of the United Kingdom subsidiary companies, I have relied upon the valuation made by the Appointed Actuary of the subsidiary companies.

In my opinion, the amount held for policy liabilities makes proper provision for the obligations payable in the future under the companies' policies; a proper charge on account of those liabilities has been made in the statement of income; and the amount of retained earnings reserved for the excess of cash surrender values over policy liabilities is proper.

[Signature]

Toronto, Canada
February 10, 1987

D.R. Johnston, F.S.A., F.C.I.A., M.A.A.A.
Senior Vice-President and Actuary

FIVE YEAR FINANCIAL SUMMARY

	1986	1985	1984	1983	1982
	(thousands of dollars)				
Operating Results					
Revenue					
Premiums	2,408,621	1,734,978	1,457,989	1,246,451	1,145,169
Investment income	709,627	546,119	417,331	366,969	330,418
Other	13,112	3,481	5,358	2,308	3,147
	3,131,360	2,284,578	1,880,678	1,615,728	1,478,734
Policy benefits					
Policy benefits	1,298,296	1,091,375	968,307	813,487	744,522
Provision for future policy benefits	1,275,160	719,223	496,530	460,644	432,402
	2,573,456	1,810,598	1,464,837	1,274,131	1,176,924
Expenses					
Commissions, salaries and other operating costs	438,252	353,410	320,549	273,730	255,315
Taxes – income, premium and other	21,103	20,858	20,625	16,671	14,868
	459,355	374,268	341,174	290,401	270,183
Income from operations					
	98,549	99,712	74,667	51,196	31,627
Unusual items	(21,658)	6,987	5,302	9,601	29,101
	76,891	106,699	79,969	60,797	60,728
Dividends to policyholders	46,602	40,368	36,024	32,530	30,468
Participating policyholders' income (loss)	(11,029)	(5,342)	1,390	5,472	15,652
Net income					
	41,318	71,673	42,555	22,795	14,608
Earnings per common share (in dollars)	14.96	30.13	19.67	11.40	7.30
Financial Position					
Assets					
	7,467,513	5,928,956	4,846,127	3,954,603	3,414,943
Equity					
Participating policyholders	138,719	149,748	155,090	153,700	148,228
Shareholders	478,024	460,912	410,645	257,735	241,190
	616,743	610,660	565,735	411,435	389,418
Dividends to shareholders					
Preferred	11,406	11,406	3,224		
Common	12,800	10,000	7,200	6,250	6,200
New Business and Business in Force					
New business					
Life	24,007,082	21,795,524	19,014,331	13,817,933	11,969,452
Health	86,670	110,037	117,538	130,118	86,242
Annuity	1,120,705	615,465	404,157	336,581	302,384
Business in force					
Life	86,956,666	78,904,427	67,645,378	53,279,043	47,753,477
Health	427,277	465,276	486,475	435,703	368,429
Annuity	3,690,024	2,788,190	2,059,250	1,670,707	1,320,705

SEGMENTED FINANCIAL DATA

Year ended December 31	1986					1985
(thousands of dollars)						
Consolidated Summary of Premiums, New Business and Business in Force	Canada	United States	Inter- national	Reinsurance	Total	Total
Individual life						
New business	1,095,882	6,508,222	941,742	10,424,148	18,969,994	17,996,247
In force at end of year	6,819,816	20,746,408	4,183,058	31,716,888	63,466,170	54,956,003
Premium income	71,531	326,236	153,907	55,275	606,949	452,587
Individual health						
New business	1,586	3,121	4	389	5,100	4,010
In force at end of year	6,134	14,802	127	635	21,698	20,839
Premium income	4,991	11,663	3,503	25,433	45,590	30,410
Individual annuity						
New business	37,553	779	28,516	—	66,848	114,513
In force at end of year	327,169	140,605	169,397	42	637,213	606,043
Premium income	41,445	2,400	53,652	83	97,580	135,956
Group life						
New business	2,756,557	1,633,700	585,382	61,449	5,037,088	3,799,277
In force at end of year	10,267,382	10,668,162	2,494,413	60,539	23,490,496	23,948,424
Premium income	35,143	42,025	988	20,735	98,891	89,666
Group health						
New business	13,593	67,221	756	—	81,570	106,027
In force at end of year	81,962	299,078	2,420	22,119	405,579	444,437
Premium income	85,517	323,166	6,247	27,050	441,980	449,738
Group annuity						
New business	22,970	1,008,148	22,739	—	1,053,857	500,952
In force at end of year	418,187	2,444,486	190,138	—	3,052,811	2,182,147
Premium income	57,755	1,026,028	29,583	4,265	1,117,631	576,621
Total						
Premium income	296,382	1,731,518	247,880	132,841	2,408,621	1,734,978
Percentage of total premiums	12.3	71.9	10.3	5.5	100.0	100.0

New business and business in force amounts are comprised of amounts written directly by the Company and amounts reinsured from other companies, net of reinsurance amounts retroceded to other companies, but do not reflect certain reinsurance agreements. New business and business in force are based on insurance amounts for life and annualized premiums for health. For annuities, new business is gross first year and single premium income and business in force is the actuarial liability held to provide for future policy payments.

SEGMENTED FINANCIAL DATA

Year ended December 31	1986	1985	1986	1985	1986	1985
Analysis of Consolidated Net Income	(thousands of dollars)					
	Participating policyholders		Shareholders		Total	
Revenue	346,193	277,379	2,785,167	2,007,199	3,131,360	2,284,578
Policy benefits	190,853	149,288	2,382,603	1,661,310	2,573,456	1,810,598
Expenses	112,313	93,331	347,042	280,937	459,355	374,268
Transfer from participating account to shareholders' account	(2,437)	(2,125)	2,437	2,125	—	—
Income from operations	40,590	32,635	57,959	67,077	98,549	99,712
Unusual items	(5,017)	2,391	(16,641)	4,596	(21,658)	6,987
	35,573	35,026	41,318	71,673	76,891	106,699
Dividends to policyholders	46,602	40,368	—	—	46,602	40,368
Net income (loss)	(11,029)	(5,342)	41,318	71,673	30,289	66,331

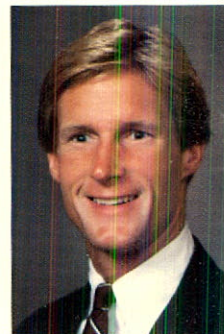
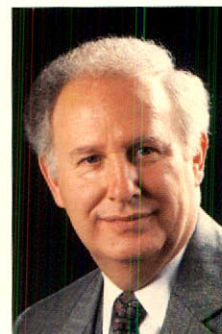
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Los Angeles Regional Pension Office

Robert E. Lee
General Agent
Seattle, Washington

Timothy J. Pawlick
Senior Account Executive
Minneapolis Group Office



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Sales Representative
Toronto Parkway

Harvey Mason
Senior Group Sales Representative
Vancouver Group Sales Office



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Jack Willins
Vice-President
Reinsurance

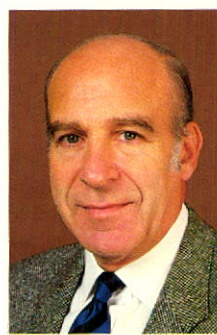


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Associated Financial Management
Finchley

Alex Weiland
Branch Manager
London, West End



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as of February 11, 1987



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Administration****Geoffrey T. Wood, C.M.A.**

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Vice-President and
Chief Medical Director

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Crown Life (Caribbean) Limited**Gordon P. Deane, F.C.I.L.**

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President

