## Report of the Valuation Actuary

I have made the valuation of actuarial liabilities of The Mutual Life Assurance Company of Canada for its balance sheet at December 31, 1981 and its statement of operations for the year then ended. In my opinion, (i) the valuation conforms to Recommendations for Insurance Company Financial Reporting of the Canadian Institute of Actuaries, (ii) the amount of the actuarial liabilities in the balance sheet makes proper provision for the obligations payable in the future under the Company's contracts, (iii) a proper charge on account of those liabilities has been made in the statement of operations, and (iv) the amount included in the reserve for contingencies to cover the excess of cash surrender values over actuarial liabilities is proper.

D. C. MacTAVISH, F.S.A., F.C.I.A., *Chief Actuary*
January 20, 1982

## Auditors' Report to the Directors and Policyholders

We have examined the balance sheet of The Mutual Life Assurance Company of Canada as at December 31, 1981 and the statements of operations, reserve for valuation of investments and other assets, reserve for contingencies and unappropriated retained earnings 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. Securities representing the Company's investments in bonds and stocks were verified by actual inspection or by certificates from the depositaries. We have accepted the actuarial liabilities in the amount determined and certified by the valuation actuary.

In our opinion, based on our examination and our reliance on the report of the valuation actuary, these financial statements present fairly the financial position of the Company as at December 31, 1981 and the results of its operations for the year then ended in accordance with accounting practices as set out in note 1 to the financial statements applied on a basis consistent with that of the preceding year. These accounting practices are acceptable to the Department of Insurance of Canada.

THORNE RIDDELL, *Chartered Accountants*
*Kitchener, Ontario, January 20, 1982*

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*The report will be presented at the 112th Annual Meeting which will be held at the Company's head office in Waterloo, Ontario, on February 24, 1982, at 1:30 p.m.*

*As a policyholder, you are eligible to attend the meeting. If you are unable to be present, a report of the proceedings will be available on request from The Mutual Life Assurance Company of Canada, Waterloo, Ontario, or any of our branch offices.*

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## Board of Directors

K. R. MacGREGOR, F.S.A., F.C.I.A.,
*Chairman of the Board, Waterloo, Ont.*[1]

JOHN H. PANABAKER, *President, Kitchener, Ont.*[1]

J. V. MASTERMAN, F.S.A., F.C.I.A.,
*Executive Vice-President, Waterloo, Ont.*[1]

W. HAROLD REA, C.M., F.C.A., LL.D., *Vice-President, Toronto, Ont.*[1]

W. M. ANDERSON, C.A., *Vancouver, B.C.*[2]

W. A. BEAN, C.B.E., *Waterloo, Ont.*[1,3]

AGNES M. BENIDICKSON, LL.D., *Ottawa, Ont.*

J. T. BLACK, C.A., *Toronto, Ont.*[3]

G. H. BLUMENAUER, *Oakville, Ont.*[2]

HON. S. L. BUCKWOLD, *Saskatoon, Sask.*[3]

R. W. COOPER, *Hamilton, Ont.*[1,3]

PIERRE CÔTÉ, C.M., *Quebec, Que.*[1,3]

C. WILLIAM DANIEL, *Toronto, Ont.*

EDOUARD FISET, O.C., F.R.A.I.C.,
*Montreal, Que.*

WILLIAM JAMES, *Toronto, Ont.*[3]

J. D. LEISHMAN, M.D., *Vancouver, B.C.*[2]

A. H. MINGAY, *Toronto, Ont.*[2]

H. J. S. PEARSON, *Edmonton, Alta.*[1,3]

G. D. STANFIELD, *Halifax, N.S.*[2]

W. J. STENASON, *Montreal, Que.*[2]

1 Member of the Executive Committee
2 Member of the Audit Committee
3 Member of the Compensation Committee

## Honorary Directors

N. R. CRUMP, C.C., LL.D., *Calgary, Alta.*

H. L. McCULLOCH, *Cambridge, Ont.*

J. S. PROCTOR, LL.D., *Toronto, Ont.*

## Divisional Officers

D. R. WINHOLD, F.S.A., F.C.I.A.,
*Senior Vice-President and Treasurer*

ANDRÉ ANDERSON,
*Vice-President (Individual Insurance)*

D. A. MacINTOSH, *Vice-President (Corporate Services)*

D. A. POST, F.L.M.I., *Vice-President (Group Insurance)*

L. G. SHAPANSKY, C.L.U., *Agency Vice-President*

## Corporate Staff Officers

C. GINGRAS, *Vice-President and General Counsel*

F. T. WHITMORE, *Vice-President*
*(Corporate Planning and Development)*

D. C. MacTAVISH, F.S.A., F.C.I.A., *Chief Actuary*

D. E. WEAVER, F.L.M.I., *Secretary*

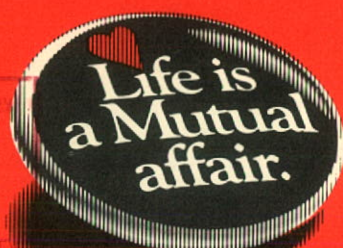
*As at January 4, 1982*

ML Mutual Life of Canada

C

The Mutual Life Assurance Company of Canada

# annual report 1981



# Notes to Financial Statements

### 1. Accounting policies

The Company is registered under the Canadian and British Insurance Companies Act and that Act, administered by the Department of Insurance of Canada, governs its financial reporting. Further information in this note pertains to life insurance and annuity operations only. The treatment of some of the items for health insurance operations is different but the financial effect is not material.

*a) Bonds and mortgage loans*

Investments in bonds and mortgage loans are carried at amortized cost plus or minus the unamortized balance of losses or gains on sales since January 1, 1978 of such securities. The difference between the proceeds on the sale of a bond, debenture, or mortgage and its amortized cost is considered to be an adjustment of future portfolio yield, deferred on the balance sheet and amortized over the lesser of twenty years or the period to maturity of the security sold.

*b) Common and preferred stocks*

Investments in common and preferred stocks are carried at cost plus or minus a bulk adjustment. This bulk adjustment reflects realized losses or gains since January 1, 1978 and the difference between market value and book value (including previous bulk adjustments) of the stock portfolio. Seven per cent of the outstanding balance of the realized gains or losses plus seven per cent of the difference between market value and book value (including previous bulk adjustments) is taken into income.

*c) Real estate held for the production of income*

Real estate held for the production of income is carried at cost less accumulated depreciation and less mortgage encumbrances. Depreciation on leaseback properties is provided at rates determined by the terms of the leases. Depreciation on other buildings is calculated on the straight line basis at 2½% per annum.

*d) Office premises and equipment*

Office premises and equipment are carried at cost less accumulated depreciation. Depreciation on office premises is calculated on the straight line basis at 2½% per annum while depreciation on equipment is calculated on the straight line basis at varying rates to amortize the cost of the assets over their estimated useful life.

*e) Segregated investments for variable benefit contracts*

Segregated investments for variable benefit contracts are carried at market value.

*f) Investment in and loans to affiliated corporations*

Affiliated corporations include corporations in which the Company has at least a 50% share interest. The shares of affiliated corporations are carried at their equity value.

*g) Actuarial liabilities*

Actuarial liabilities are the amounts which, together with future premiums and investment income, provide for future obligations under insurance and annuity contracts. The "1978 Canadian Method" of valuation has been used. Within certain limits, the Method spreads the cost of acquiring new business over the premium paying period. It requires actuarial assumptions of interest, mortality, expenses, withdrawal, and other contingencies to be appropriate to the contracts in force.

*h) Income taxes*

The income tax charge against operations is the amount estimated to be currently payable and does not take into account any deferral of taxes.

*i) Currency*

United States currency is included at the rate of $1.10 Canadian to the U.S. dollar for 1981 ($1.00 in 1980) except with respect to variable benefit contracts where current exchange rates are used.

### 2. Cash and short term investments

| The distribution of these items is as follows: | December 31 1981 | 1980 |
|---|---|---|
| | (in thousands) | |
| Cash | $ 4,538 | $ 3,016 |
| Callable deposits in banks | 37,667 | 1,867 |
| Bankers' acceptances | 158,355 | 107,358 |
| Other short-term instruments | 84,603 | 19,868 |
| | $285,163 | $132,109 |

### 3. Bonds

| The distribution of bonds is as follows: | December 31 1981 | 1980 |
|---|---|---|
| | (in thousands) | |
| Government of Canada bonds | $ 210,168 | $170,568 |
| Provincial, other government, and municipal bonds | 230,995 | 170,378 |
| Public utility, industrial, and other bonds | 717,270 | 646,409 |
| | $1,158,433 | $987,355 |

The value of bonds includes $47,896,000 ($23,231,000 in 1980) to reflect unamortized losses on sales.

### 4. Common and preferred stocks

The value of stocks has been decreased by the bulk adjustment of $46,479,000 ($29,275,000 in 1980).

### 5. Mortgage loans

| The distribution of mortgage loans is as follows: | December 31 1981 | 1980 |
|---|---|---|
| | (in thousands) | |
| CMHC insured loans | $ 291,715 | $ 301,409 |
| Other insured loans | 207,728 | 195,597 |
| Conventional loans | 940,468 | 813,072 |
| | $1,439,911 | $1,310,078 |

### 6. Real estate held for the production of income

| The value is determined as follows: | December 31 1981 | 1980 |
|---|---|---|
| | (in thousands) | |
| Original cost | $150,963 | $112,355 |
| Accumulated depreciation | (23,543) | (21,289) |
| Mortgage encumbrances | (27,605) | (17,000) |
| | $ 99,815 | $ 74,066 |

### 7. Loans on policies

| The distribution of loans on policies is as follows: | December 31 1981 | 1980 |
|---|---|---|
| | (in thousands) | |
| Loans secured by policy values | $273,893 | $225,326 |
| Loans secured by annuity payments | 25,914 | |
| | $299,807 | $225,326 |

### 8. Investment in and loans to affiliated corporations

These corporations are Mississauga Executive Enterprises Limited (50% owned), Executive Financial Counselling Limited, MLC Oil and Gas Ltd., Mu-Cana Data Services Ltd., Mu-Cana Investment Counselling Ltd., and RDC Property Services Limited (all wholly owned). Harmute Investments Limited has been wound up and the Company's interest in its assets is held as real estate for the production of income.

### 9. Actuarial liability for insurance and annuity contracts

| The distribution of the actuarial liability is as follows: | December 31 1981 | 1980 |
|---|---|---|
| | (in thousands) | |
| Life insurance | $ 970,833 | $ 982,073 |
| Health insurance | 102,403 | 81,179 |
| Annuities | 1,636,406 | 1,157,310 |
| | $2,709,642 | $2,220,562 |

The valuation method used makes allowance for deferred acquisition costs of $116,595,000 ($107,593,000 in 1980).

### 10. Reserve for valuation of investments and other assets

The Department of Insurance of Canada requires that certain minimum amounts be appropriated from retained earnings as reserves against assets. These are as follows:

| | December 31 1981 | 1980 |
|---|---|---|
| | (in thousands) | |
| Reserve for valuation of investments | $45,760 | $39,454 |
| Reserve for other assets | | |
| Furniture, fixtures, and equipment | 4,502 | 3,134 |
| Leasehold improvements | 874 | 760 |
| Amounts paid in advance to agents | 4,411 | 3,675 |
| Health insurance premiums outstanding for more than 90 days | 116 | 83 |
| | 9,903 | 7,652 |
| Total required reserve | 55,663 | 47,106 |
| Credit with respect to foreign currency valuation | 8,915 | 11,276 |
| Net required reserve | $46,748 | $35,830 |

Amounts appropriated in excess of the statutory requirements provide additional protection against market and currency fluctuations.

### 11. Reserve for contingencies

The Department of Insurance of Canada requires that excesses of current cash values over actuarial liabilities, computed using the 1978 Canadian Method of Valuation, be appropriated from retained earnings. This amounted to $40,856,000 ($37,859,000 in 1980). Amounts appropriated in excess of the statutory requirement provide protection against abnormal claims fluctuations.

### 12. Unappropriated retained earnings

Included in unappropriated retained earnings is $1,437,000 ($1,329,000 in 1980) in segregated funds for variable benefit contracts.

### 13. Investment income

| Investment income consists of the following: | For the Year 1981 | 1980 |
|---|---|---|
| | (in thousands) | |
| Interest, dividends, and net rents | $376,997 | $289,004 |
| Gains from stocks | 11,470 | 13,083 |
| Amortized losses from bonds and mortgage loans | (5,188) | (2,557) |
| Investment expenses | (9,035) | (7,315) |
| | $374,244 | $292,215 |

### 14. Other income for variable benefit contracts

This item represents all realized and unrealized capital gains and losses and sundry income for variable benefit contracts.

### 15. Health insurance benefits

In addition to the benefits shown, the Company paid $13,065,000 in health claims on behalf of clients under administrative services contracts ($3,800,000 in 1980).

### 16. Income and premium taxes

The proposals for the taxation of life insurance companies included in the November 1981 Budget have not been finalized and the amount indicated may be subject to adjustment when the retroactive effect, if any, can be determined.

### 17. Company pension plans

No unfunded liability exists under the Company's pension plans.

# Statement of Operations

| | For the Year 1981 | 1980 |
|---|---|---|
| | (in thousands) | |
| **INCOME** | | |
| Premiums for | | |
| Life insurance | $ 213,455 | $199,770 |
| Health insurance | 108,596 | 93,787 |
| Annuities | 532,603 | 301,957 |
| | 854,654 | 595,514 |
| Investment income *(note 13)* | 374,244 | 292,215 |
| Other income for variable benefit contracts *(note 14)* | (39,316) | 32,219 |
| | $1,189,582 | $919,948 |
| **THIS INCOME WAS USED FOR** | | |
| Payments to policyholders and beneficiaries | | |
| Death and disability benefits | $ 67,758 | $ 61,278 |
| Health insurance benefits *(note 15)* | 78,631 | 72,169 |
| Maturity and surrender values | 192,768 | 110,922 |
| Annuities | 68,114 | 50,839 |
| Interest on amounts on deposit | 23,965 | 20,707 |
| Dividends | 70,222 | 68,464 |
| | 501,458 | 384,379 |
| Increase in actuarial liability for insurance and annuity contracts | 489,080 | 313,539 |
| Increase in liability for variable benefit contracts | 13,351 | 68,095 |
| Increase in provision for dividends to policyholders in the following year | 11,167 | 4,968 |
| General expenses and business taxes | 117,860 | 99,311 |
| Income and premium taxes *(note 16)* | 11,030 | 8,410 |
| | $1,143,946 | $878,702 |
| **OPERATING INCOME FOR THE YEAR** | $ 45,636 | $ 41,246 |
| Adjustment in United States dollar exchange rate *(note1i)* | 6,042 | |
| **NET INCOME FOR THE YEAR** | $ 51,678 | $ 41,246 |
| **ALLOCATED AS FOLLOWS** | | |
| Reserves for | | |
| Valuation of investments and other assets | $ 16,500 | $ 9,500 |
| Contingencies | 11,500 | 9,207 |
| Unappropriated retained earnings | 23,678 | $ 22,539 |
| | $ 51,678 | $ 41,246 |

# Balance Sheet

| | December 31 1981 | 1980 |
|---|---|---|
| | (in thousands) | |
| **ASSETS** | | |
| Cash and short term investments *(note 2)* | $ 285,163 | $ 132,109 |
| Bonds *(note 3)* | 1,158,433 | 987,355 |
| Common and preferred stocks *(note 4)* | 147,324 | 156,478 |
| Mortgage loans *(note 5)* | 1,439,911 | 1,310,078 |
| Real estate held for the production of income *(note 6)* | 99,815 | 74,066 |
| Office premises and equipment | 29,074 | 28,819 |
| Loans on policies *(note 7)* | 299,807 | 225,326 |
| Segregated investments for variable benefit contracts | 336,744 | 323,285 |
| Investment in and loans to affiliated corporations *(note 8)* | 6,519 | 11,500 |
| Accrued investment income | 64,440 | 43,228 |
| Premiums in course of collection | 11,537 | 10,603 |
| Other assets | 7,417 | 4,876 |
| | $3,886,184 | $3,307,723 |
| **LIABILITIES** | | |
| Actuarial liabilities | | |
| Insurance and annuity contracts *(note 9)* | $2,709,642 | $2,220,562 |
| Variable benefit contracts | 335,307 | 321,956 |
| Policy benefits in course of payment and provision for unreported claims | 34,450 | 30,058 |
| Provision for dividends to policyholders in the following year | 86,067 | 74,900 |
| | 3,165,466 | 2,647,476 |
| Policy proceeds, dividends, and other amounts on deposit | 251,711 | 241,097 |
| Amounts received from mortgagors for property taxes not yet due | 4,743 | 5,689 |
| Income and premium taxes payable | 4,780 | 7,985 |
| Other liabilities | 27,598 | 25,268 |
| | $3,454,298 | $2,927,515 |
| **RETAINED EARNINGS** | | |
| Reserves for | | |
| Valuation of investments and other assets *(note 10)* | $ 91,500 | $ 75,000 |
| Contingencies *(note 11)* | 115,500 | 104,000 |
| Unappropriated retained earnings *(note 12)* | 224,886 | 201,208 |
| | $ 431,886 | $ 380,208 |
| | $3,886,184 | $3,307,723 |

## Statement of Reserve for Valuation of Investments and Other Assets

| | For the year 1981 | 1980 |
|---|---|---|
| | (in thousands) | |
| Balance at beginning of year | $ 75,000 | $ 65,500 |
| Allocation of net income for the year | 16,500 | 9,500 |
| Balance at end of year | $ 91,500 | $ 75,000 |

## Statement of Reserve for Contingencies

| | For the year 1981 | 1980 |
|---|---|---|
| | (in thousands) | |
| Balance at beginning of year | $104,000 | $ 94,793 |
| Allocation of net income for the year | 11,500 | 9,207 |
| Balance at end of year | $115,500 | $104,000 |

## Statement of Unappropriated Retained Earnings

| | For the Year 1981 | 1980 |
|---|---|---|
| | (in thousands) | |
| Balance at beginning of year | $201,208 | $178,669 |
| Allocation of net income for the year | 23,678 | 22,539 |
| Balance at end of year | $224,886 | $201,208 |

K. R. MacGREGOR
*Chairman of the Board*

JOHN H. PANABAKER
*President*

# Report of the Board of Directors

Your Directors are pleased to present the 112th annual report to policyholders, together with the reports of the valuation actuary and the auditors.

The year 1981 was a very successful one for the Company despite an environment of continued economic stress, intense competition and uncertainties arising from the Federal Budget.

The increase in new individual life insurance sales together with a high retention of existing group business produced a significant growth in life insurance in force. The substantial increase in premium income, particularly for annuities, reflects clearly that the modern products developed by the Company are well accepted by Canadians.

A dramatic increase in investment income and favourable mortality experience contributed to the excellent financial results achieved. This has made possible another increase in the dividend scale for individual policyholders. In addition, the continued financial strength and stability of the Company are assured by the level of retained earnings which form the Company's capital base.

Assets increased by more than $500 million and are now almost $3.9 billion. Strong emphasis continues to be placed on shortening the term of the investment portfolio in response to the continued growth in sales of flexible annuities and the volatility of the capital markets.

Mr. John S. Proctor retired as a Director at the last annual meeting after twenty-two years of valuable service to the Company and Mr. C. William Daniel of Toronto was elected to the Board in his place.

The Board recognizes that the exceptional results achieved during 1981 were made possible by the continuing confidence of Canadians in the Company, and by the loyal and efficient service given by the staff and field force in all parts of the country.

Respectfully submitted on behalf of the Board.

K. R. MACGREGOR
*Chairman of the Board*

JOHN H. PANABAKER
*President*

# Highlights of the 112th Annual Report

| | | 1981 (in thousands) | 1980 (in thousands) | % Change |
|---|---|---|---|---|
| **New life insurance sold** | **Individual** | $ 2,951,934 | $ 2,387,281 | 23.7 |
| | **Group** | 815,323 | 948,625 | −14.1 |
| | **Total** | $ 3,767,257 | $ 3,335,906 | 12.9 |
| *The face value of new life insurance protection provided during 1981 under 65,950 individual policies and under new or increased group plans for clients' employees. In addition, 51,600 individual annuity contracts were arranged.* | | | | |
| **Life insurance in force at December 31** | **Individual** | $15,140,998 | $13,381,220 | 13.2 |
| | **Group** | 11,329,232 | 9,904,151 | 14.4 |
| *The total death benefits guaranteed under all our life insurance contracts.* | **Total** | $26,470,230 | $23,285,371 | 13.7 |
| **New premium income** | **Life Insurance** | $ 27,260 | $ 23,974 | 13.7 |
| | **Health Insurance** | 12,554 | 11,372 | 10.4 |
| | **Annuities** | 464,576 | 232,930 | 99.4 |
| | **Total** | $ 504,390 | $ 268,276 | 88.0 |
| **Total premium income** | | $ 854,654 | $ 595,514 | 43.5 |
| *Includes life insurance premiums (up 7% over 1980); health insurance premiums (up 16%); and annuity premiums (up 76%).* | | | | |
| **Total payments to policyholders and beneficiaries** | | $ 501,458 | $ 384,379 | 30.5 |
| **Dividends to policyholders (included above)** | **Individual** | $ 59,163 | $ 56,526 | 4.7 |
| | **Group** | 11,059 | 11,938 | −7.4 |
| *In addition, $11.2 million was set aside for future dividends.* | **Total** | $ 70,222 | $ 68,464 | 2.6 |
| **Operating income for the year** | | $ 45,636 | $ 41,246 | 10.6 |
| **Assets** | | $ 3,886,184 | $ 3,307,723 | 17.5 |
| *Premiums not required to pay current claims and expenses are put to work for the benefit of policyholders, and these investments provide jobs, services and homes for Canadians. Not included in this total are assets of $330.7 million under the management of Mu-Cana Investment Counselling Ltd., the Company's wholly-owned subsidiary.* | | | | |
| **Retained earnings** | | $ 431,886 | $ 380,208 | 13.6 |
| *Indicate the financial strength of the Company and include amounts required by the Department of Insurance.* | | | | |
| **Net rate of interest earned** | | 11.22% | 10.26% | |
| *One measure of the return on investments made over the years.* | | | | |