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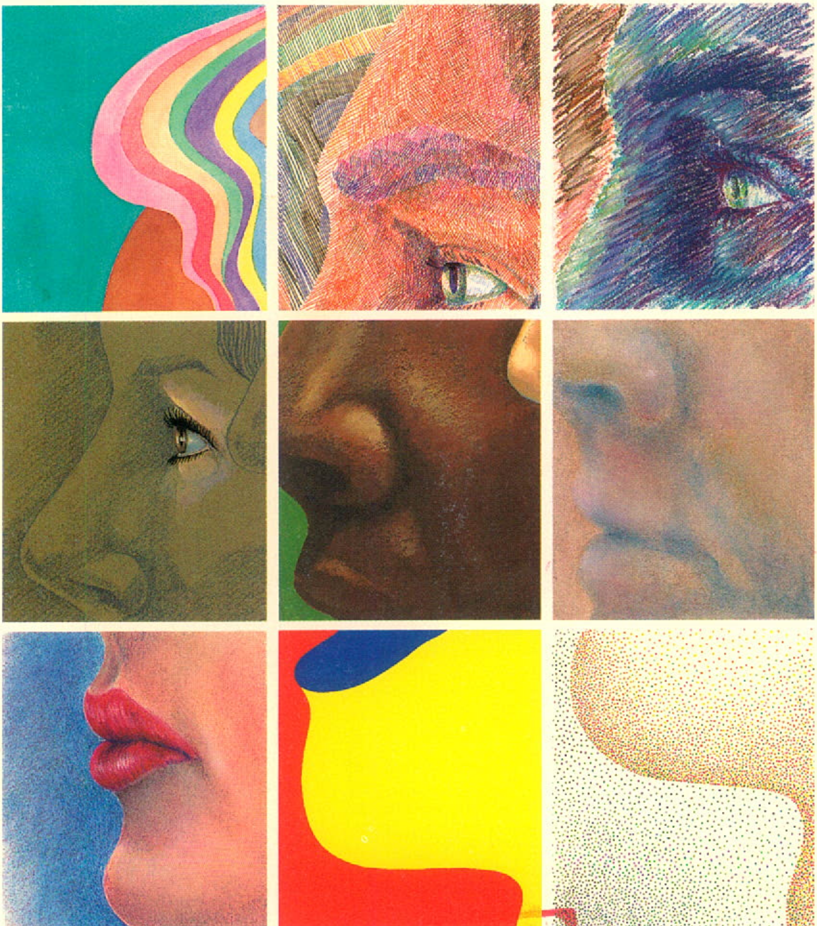
1990 Annual Report

Mutual Life of Canada



The Mutual Group

Contents

The Annual Meeting

The Annual Report is sent to all of the more than 650,000 policyholders of The Mutual Life Assurance Company of Canada. It will be presented at the 121st Annual Meeting which will be held at the Company's head office in Waterloo, Ontario, on Thursday, March 28, 1991, at 1:30 p.m.

As a policyholder, you are eligible to attend the meeting. If you are unable to be present, a record of the proceedings will be available on request. Please contact the Public Affairs Department, Mutual Life of Canada, Waterloo, Ontario, N2J 4C5, or any of the Company's offices.

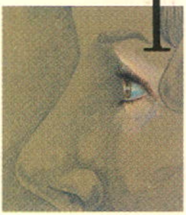
The Mutual Group's Vision: "to be the best in the financial markets we serve." The cover art on the Annual Report captures the theme of vision, of different people looking towards the future with a shared vision.

The Year in Brief

	1990	1989	% Change
	(in millions)		
Operating results			
Premium income	**$ 2,251**	$ 1,956	15.1
Net investment income	**$ 1,325**	$ 1,184	11.9
Benefits paid	**$ 1,835**	$ 1,612	13.8
Policyholder experience dividends (included in benefits paid)	**$ 179**	$ 172	4.1
Income before taxes and policyholder ownership dividends	**$ 101**	$ 180	(43.9)
Policyholder ownership dividends	**$ 30**	$	N/A
Net income	**$ 39**	$ 125	(68.8)
Policyholders' equity	**$ 1,091**	$ 1,051	3.8
Assets under administration (includes corporate assets of $13,776 million in 1990 and $12,474 million in 1989)			
Individual division	**$ 8,050**	$ 7,297	10.3
Group division	**3,456**	3,166	9.2
United States division	**835**	767	8.9
Trust operations	**2,364**	2,156	9.6
Investment management	**4,980**	4,949	0.6
Total	**$19,685**	$18,335	7.4
Life insurance in force			
Canadian individual	**$43,213**	$39,402	9.7
Canadian group	**29,510**	27,287	8.1
United States	**12,914**	11,864	8.9
Total	**$85,637**	$78,553	9.0
Annuities in force (liability)			
Canadian individual	**$ 5,006**	$ 4,351	15.1
Canadian group	**2,539**	2,295	10.6
United States	**223**	223	0.0
Total	**$ 7,768**	$ 6,869	13.1
Health insurance in force			
Canadian premiums plus administrative services only equivalent	**$ 469**	$ 404	16.1
United States premiums	**159**	115	38.3
Total	**$ 628**	$ 519	21.0

Chairman and Chief Executive Officer Jack Masterman (l) and President and Chief Operating Officer Bob Astley believe quality service to clients is the cornerstone of The Mutual Group's Vision for the '90s: "to be the best in the financial markets we serve." The focus of the next decade will be on quality in all areas: products, delivery of products, providing fast, efficient and individualized service in order to achieve a number 1 service ranking from clients.

Message to the Policyholders



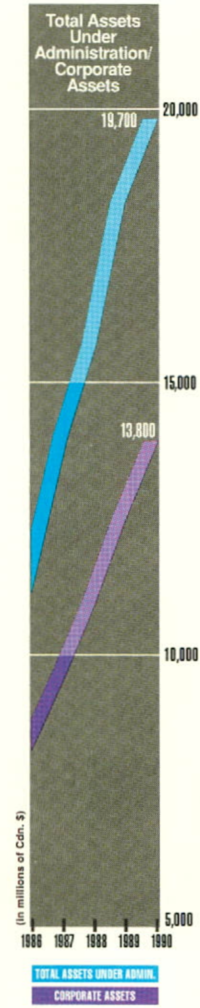
The year 1990 will be remembered as one of great political and economic turbulence. The Cold War ended and we witnessed the unification of a divided Germany. Yet the seeds for the Persian Gulf war were sown, causing tensions which swept the world. At home, the collapse of the Meech Lake Accord and bitter debate over the Goods and Services Tax punctuated a year of political discord and disenchantment. The economy, sluggish in the third quarter, ground to a halt in the fourth in sharp contrast to the buoyant growth of the past five years.

Mutual Life of Canada and The Mutual Group experienced disappointing financial results. Income for 1990, before taxes and a special policyholder Ownership Dividend, was $101 million, compared to 1989's total of $180 million. Net income in 1990 was $39 million, compared to 1989's exceptional total of $125 million. The steep decline in common stock values in 1990, in contrast with buoyant markets in 1989, was a major contributing factor to the decline in net income. Higher claims on disability insurance, several large individual life insurance claims, and a higher effective rate of tax on income also hurt profitability.

1990 was also the year Mutual Life of Canada made significant strides on several fronts. A groundbreaking initiative was the Ownership Dividend, a first in North America. A total of $30 million, paid to participating policyholders, shows that ownership counts in a mutual company. The Company was formed on the mutual principle in 1870; the Ownership Dividend demonstrates the relevance of that concept in 1990. This payment, separate from regular experience dividends, was made possible because of Mutual Life of Canada's growth and prosperity in the last decade. The Board of Directors will review the Company's financial strength every three years and consider the payment of future Ownership Dividends.

In addition to the Ownership Dividend, experience dividends to policyholders amounted to $179 million in 1990. The dividend scale for individual insurance policies will remain at the 1990 level in 1991.

Total assets under administration continued to grow and reached $19.7 billion, up 7% from 1989. Total life insurance in force reached $86 billion at year end. Canadian individual life insurance in force grew by 10%, placing the Company second in Canada. Mutual Life of Canada is first in the Canadian individual annuity market, with the liabilities for annuities in force reaching $5 billion by year end, up 15% from 1989. These results reflect the Company's continued success in traditional lines of business, and in helping Canadians achieve their financial goals.

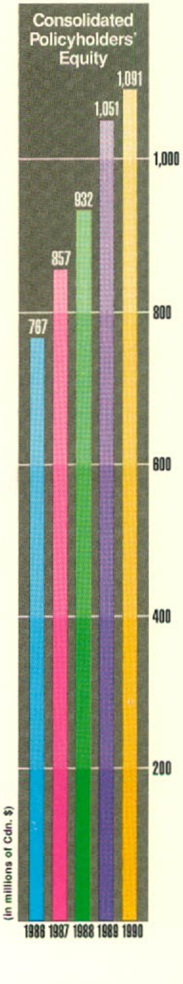


To best equip the organization for the coming decade, Mutual Life of Canada developed its "Vision for the '90s," a philosophy with meaning. The guiding principle is simple and bold: "to be the best in the financial markets we serve." Translating this goal into reality will be the unwavering focus of all our efforts in 1991 and beyond. A series of objectives and strategies to achieve the vision has been established. Everyone in The Mutual Group will be involved in pursuing a clearly articulated common purpose.

The Mutual Group developed its vision statement to help clients realize their own "vision." Our success will not be measured by how we rate ourselves, but how clients see us. The Mutual Group has built a solid reputation for service. Now we have challenged ourselves to do even better. We will work with policyholders and other clients to define what quality service means to them. Then we intend to exceed those expectations. Being "the best" means achieving a number 1 ranking for service by clients. Client surveys will help us measure how we are doing.

The agent remuneration system, launched in 1989, emphasizes client service. Mutual Life of Canada's excellent reputation for persistency of individual insurance business achieved new heights in 1990. An increase in retention of business this past year testifies to the success of the level commission system. The focus is on building long-term client relationships, and makes client service an even higher priority than before. Mutual Life of Canada remains wholeheartedly committed to its full-time exclusive agency distribution system. A 7% increase in agents and managers means we will be able to meet the financial needs of a greater number of people.

The Mutual Group will meet the challenges of the '90s from a position of unquestioned financial security. In 1990, Mutual Life of Canada received an 'AAA' rating from Standard and Poor's, the highest one this international credit rating agency bestows. The 'AAA' designation recognizes the Company's superior claims-paying ability. This was the third consecutive year that Mutual Life of Canada achieved this standing. In addition, the Company's capital position substantially exceeds the standard set by CompCorp, the life insurance industry's consumer protection plan.



The quality of assets is an important measure of financial strength. Non-performing assets totalled $66 million at year end, 0.7% of the $9 billion invested in bonds, mortgages and corporate loans. This percentage is lower than most other financial institutions, and proper provision has been made for potential losses.

The Mutual Group has actively participated in developing a new framework for the regulation of the financial services industry. Through representations to the Department of Finance and to the House of Commons Finance Committee, we have advocated fair rules for policyholder participation in the governance of insurance companies, broader ownership powers for financial institutions to own subsidiaries, more harmonization between federal and provincial regulations, and the need for greater competitive equity among banks, trust companies and insurance companies. We are pleased with the progress made in some areas in 1990, and intend to keep working in this arena throughout 1991.

Late in 1990, the federal government released a policy paper and two bills dealing with reforms to the rules governing the financial services industry. Amendments to the Trust and Loan Companies Act and the revised Bank Act, currently before Parliament, are important policy initiatives designed to benefit consumers of financial products and achieve greater competitive equity among financial institutions.

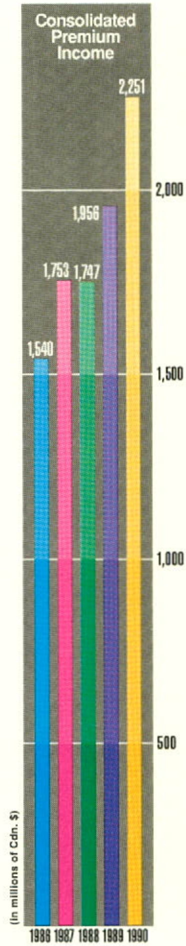
Mutual Life of Canada supports the government's proposals dealing with networking among affiliated financial institutions and insurance retailing. We strongly endorse the proposal which would prohibit the direct sale of insurance in the branches of deposit-taking institutions. The sale of life insurance, as the government has suggested, should and will be left to qualified, licensed agents working independently of deposit-taking institutions. The proposal that would permit banks to acquire insurance subsidiaries is certainly not ideal, though not as crucial as the networking issue so long as strict limitations on direct marketing and retailing of insurance products are established.

Other items in the reform proposals could have significant impact for The Mutual Group. For instance, insurance companies would have greater powers to make consumer and commercial loans, and afford greater choices to consumers seeking credit. However, the real test of the effectiveness of the reforms will be their impact on the consumer. The reforms will mean The Mutual Group will be better able to provide consumers with services and products to meet their financial needs.

We anticipate the introduction of a new Insurance Companies Act in 1991. The federal government recognizes the need to modernize the laws governing life insurance companies, a sector which has not had its governing legislation updated for over 50 years.

In 1990, the Board regretfully accepted the resignations of two directors, Mr. Robert Kadlec of British Columbia and Mr. Jean Monty of Québec.

1990 was a difficult year for The Mutual Group. The Board wishes to commend all Mutualists for their dedication, hard work and commitment. We also extend thanks to all policyholders and clients for the confidence expressed in Mutual Life of Canada and The Mutual Group. We will work hard to earn your continuing support.



Jack V. Masterman
Chairman and
Chief Executive Officer

Robert M. Astley
President and
Chief Operating Officer

January 30, 1991

Divisional Commentary

The following commentary, provided by senior management, gives an overview of all major operating units of The Mutual Group, highlighting financial results, new initiatives and future directions. This year, a new section looks at the financial management of The Mutual Group as a whole.

Mutual Life of Canada
Individual Marketing/Operations Divisions
Diversico and Investco

Despite a significant growth in business in force and other successes, 1990 was a disappointing year in terms of financial results. Total individual earnings, before the Ownership Dividend, were $59 million, compared to $84 million in 1989.

The reasons for this decrease include the weak economy, costs associated with expanding the sales force, and increased death and disability benefits payments. Efforts are under way to improve the financial picture for 1991; some steps include repricing certain products, streamlining procedures to reduce expenses, and enhancing the agent recruitment process.

The year produced notable positive results, too. Canadian life insurance in force grew by 10% to $43 billion, placing Mutual second in Canada. The Company is also the major Canadian provider of annuities with in-force liabilities reaching $5 billion, up 15% from 1989.

Dividends in 1990 were $162 million, up 12% from 1989. Individual policyholders also received a total of $25 million through a new Ownership Dividend, a special payment made in addition to experience dividends.

Providing quality service through the sales force has always been a priority. An intensified service focus in 1990 resulted in a major improvement in retention of business and in meeting clients' long-term needs. Continued emphasis has been placed on improved delivery of accurate and timely information to clients, through enhanced technological support for agents.

In 1990, one key objective was exceeded by expanding the

Doris Lau (feature photo) is a client with Mutual's newest agency in Markham, Ontario. The agency, which serves Metro Toronto and its Chinese community, opened in 1990. Formerly a judge for the Court of Canadian Citizenship, Doris is now a vice-president with the investment firm Nesbitt Thomson.

She owns a term insurance policy, with her favourite charity as the beneficiary. Doris says this gives her an "excellent opportunity to contribute to the community."

Agent Jacqueline Ng (inset) explains her client service approach, "I work with clients to define their needs and then fulfill what I have promised."

sales force by 7%, which will result in the ability to serve more clients. Considerable resources continue to be devoted to agent selection, training and support to maintain the quality of the sales force and ensure improved agent retention.

A priority in 1990 was to meet the needs of emerging client groups. A new agency was opened in Markham, Ontario, to serve the Chinese-Canadian community in Metro Toronto. The agency network will continue to be diversified to serve Canada's ethnic groups. An analysis of how best to serve clients over age 50 was completed. Action will be taken in 1991 to meet the needs of this market.

Two new products were introduced in 1990, a Bond Fund and one of the most flexible and competitive RRIF (Registered Retirement Income Fund) products in Canada, to continue helping Canadians meet a range of financial needs.

In 1990, the Individual Division was split into two separate entities: the Individual Operations Division and the Individual Marketing Division. The objective is to make the provision of quality products and services even more effective. The preceding commentary reflects the results of both Divisions.

The focus in 1991 will be to improve financial results, and continue to provide excellent products and quality service. A new life insurance product will be introduced to cover the increasing tax burden at death. New technologies to enhance product delivery will be explored. Finally, a quality service program, launched in 1990, will be enhanced to support The Mutual Group's Vision: "to be the best in the financial markets we serve."

Group Division

The Group Division experienced mixed results in 1990; some areas exceeded objectives, while others were adversely affected by the slower economy and an intensely competitive marketplace. Total life, health and pension premium income and ASO (administrative services only) equivalents reached $1 billion, compared to $850 million in 1989.

Claude Bouchard is a Human Resources Manager for United Auto Parts Inc., based in Montréal, Québec, with distribution centres across the country. The company's 2,500 employees are protected under a Mutual plan, in place since 1985, that offers complete life, accidental death, health, dental and short and long-term disability coverage. Claude says, "We have received very satisfactory service from Mutual, and the communication lines are always open."

Céline Blondin (inset), Senior Account Manager, (Group Marketing), says "service and flexibility are key issues when dealing with a plan such as this. It's important to be available at all times, and go the extra mile."

Life and health sales significantly exceeded both 1989 results and 1990 targets; although group life and health plan terminations were higher than usual, arising from severe competition, Mutual maintained its share of this market.

Pension sales of $174 million were at a record high. Pension assets were above 1989 levels but the outstanding growth of recent years was not achieved due to decreased investment income and the highly competitive marketplace. Despite the challenges presented by this environment, Mutual's leading position in the pension market continued in 1990. This was achieved through a combination of superior technology and client service.

Group life earnings were outstanding in 1990. Health earnings were disappointing, primarily the result of deteriorating LTD (long term disability) claims experience. Actions are being taken to return this benefit to a profitable position. Pension earnings fell short of objectives due to lower than expected investment income and increased new business strain.

The focus of the Group Division continues to be the provision of quality products, supported by Mutual's superior record-keeping systems. A sophisticated pension system, developed by Mutual and implemented in 1989, has greatly enhanced clients' administrative capabilities.

To achieve quality service requires understanding what service means to clients, and how the Company can best meet these needs. A major company survey of group life and health clients was conducted in 1990; the results were positive, as well as showing some ways service could be fine-tuned. Changes based on this information are under way. A survey by an independent consulting firm also underlined the Company's strong reputation for service. Based on 13 quality service performance dimensions, Mutual was rated first among major insurers and second overall by plan sponsors.

An annual program was initiated in 1990 to gain pension clients' views on service. Based on all internal and external survey

Orthodontist Frank J. Furlong is president of The Windsor Health Centre, Inc., a "one-stop" medical facility in Windsor, Ontario. The medical complex houses 70 doctors, 25 dentists, 4 pharmacies, 2 laboratories, 3 physiotherapy clinics, 3 chiropractors, 2 optometrists and more. The Centre's mortgage is with Mutual Life of Canada. Dr. Furlong says, "Mutual came highly recommended and provided the best rates."

Windsor agent Susan A. Lauzon referred this $9 million mortgage lead to Mutual's Mortgage Investments office in London, Ont. Manager Bill Knott, AACI, SRPA, explains, "Along with the help of head office staff, we put together a financial package that fully met the client's needs."

data, an overall plan to provide the best client service is being developed for implementation throughout the Division in 1991.

Just under 6,000 Group policyholders received Mutual's new Ownership Dividend in 1990, a total payment of $5 million. This special payment was made in addition to yearly experience dividends, and clients responded very positively.

The Group Division anticipates continuing competitive challenges in 1991. Within the framework of quality service, the Division will channel considerable efforts into improving sales and conserving business. Excellent staff in the field and head office will work hard to achieve these goals.

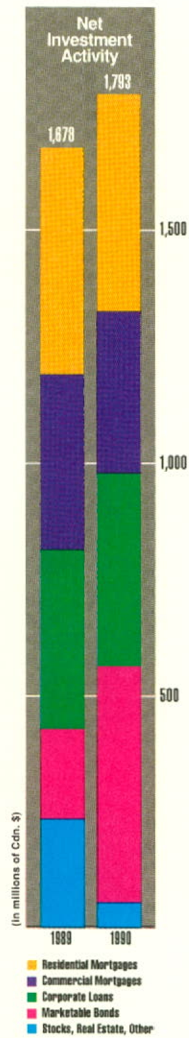
Investment Division

Canadian investment markets were impacted negatively by both domestic and global events. Bank of Canada inflationary concerns, the collapse of the Meech Lake Accord, rising interest rates in Europe and Japan, plus the Persian Gulf crisis caused Canadian yields to remain relatively high for much of the year, despite growing evidence of recession. Canada-U.S. yield spreads reached their highest level since 1981-82. Canadian stock prices began declining in January, then fell sharply after the invasion of Kuwait before recovering slightly near year end. The supply of quality loans was restrained for a variety of reasons, including a sagging housing market.

Mutual Life of Canada's cash available for investment was buoyant, increasing by 17% to $1.7 billion in 1990. Placements of mortgages totalled $810 million, while $415 million was committed to corporate loans. This volume of Canadian lending activity was very close to that for the previous year, and preliminary data indicate a further increase in Mutual's market share of these higher yielding fixed-rate assets.

Overall loan quality remains good, despite a sharp increase in residential mortgage arrears. Losses and writedowns of principal and interest for the year in the mortgage and corporate loan portfolios were $7 million, with the only significant loss relating to liquidation of security underlying a corporate loan that defaulted in 1989. In August, Mutual Life of Canada foreclosed on an aircraft financing, but any shortfall on sale of the planes is expected to be recovered through credit insurance from a government agency. At year end, non-performing loans totalled $22 million, being 0.4% of the $5.1 billion invested in mortgage and corporate loans.

Given the buoyant cash flows and relatively weak loan supply, just over $500 million was invested in Canadian marketable bonds. Net purchases were largely in mid-term maturities until early in the fourth quarter when long-term bonds were acquired in anticipation of lower interest rates. Quality of the marketable bond portfolio is first-class — $1.5 billion is in Canadian government credits, and over 90% of the corporate holdings are rated A or better with virtually nothing below investment-grade. Similarly, over three-quarters of the Company's preferred share portfolio carries the highest P-1 rating, with the balance in the next highest category.



Although the value of the Company's common stock portfolio declined along with the market, its underlying quality is evidenced by the fact that all three sectors (Canadian, U.S. and international) outperformed the respective market indexes for 1990. Performance was aided by the approximately $60 million held in cash reserves throughout most of the year.

Late in the year, Mutual augmented its real estate portfolio by committing to the purchase of a medium-sized office building in a prime downtown Vancouver location. Earlier in the year, a 50% interest was acquired in a Winnipeg office project. Appraised value of the Company's real estate holdings is $560 million, which is $110 million in excess of book value.

MLC Oil and Gas benefited from the jump in oil prices, recording net earnings for 1990 of $4.8 million compared with $2.7 million in 1989.

People and Technology

Mutual Life of Canada regularly seeks the views and opinions of staff and agents on issues such as compensation, job satisfaction, management practices, morale, and products. In 1990, 87% of staff responded to a survey covering these and other issues. Overall satisfaction was high, with 77% rating Mutual as an above average place to work. The focus in 1991 will be on those areas identified as needing improvement, to ensure staff have the opportunity for rewarding careers and are well-equipped to provide quality service to all clients. Results from a similar agent survey will help agents and management work together to continue enhancing products and services.

The head office recycling program, initiated in 1989, continued to work very well in 1990. During the year, staff reduced the quantity of waste going to landfill sites by 69% or approximately 30 tonnes. The program will be expanded in 1991.

Using technology to improve productivity, reduce costs and enhance client service continued in 1990. The Company participated in the Shared Health Network, which provides instant authorization and payment of dental claims; provided a RESP (Registered Education Savings Plan) information service on ALEX, (a Bell Canada on-line service); and participated in a pilot project in Ottawa using debit cards to facilitate payment for products and services.

U.S. Division

Note: Dollar amounts are in U.S. currency.

In an increasingly competitive marketplace, the U.S. Division's strategy to stand out from the competition placed heavy emphasis in 1990 on quality. Both Association Life Insurance Company (ALIC) and Western States Life Insurance Company (WSL) initiated awareness/improvement programs; "Quality Journey" defined the concept as "doing only right things, the first time, on time, at the right cost and with the right attitude."

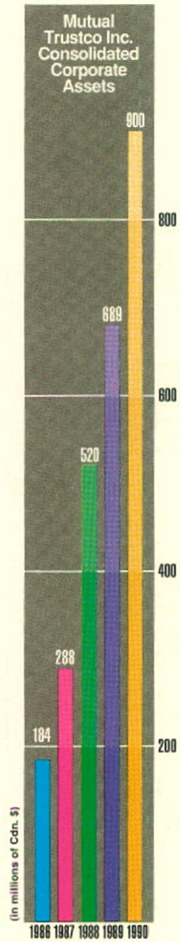
A number of programs were introduced to encourage employee understanding of and participation in this essential service concept. These include Employee Involvement Groups, an Employee Suggestion program, and Customer Attitude Surveys. At WSL, the "CARE" program (Commitment to Agents

The Bank of Maple Plain in Maple Plain, Minnesota, owns special universal life policies from Western States Life, designed specifically for executives of financial institutions. C. Paul Lindholm (feature photo), President and CEO of the bank, says, "WSL meets our criteria for a low-risk, innovative, profitable, well-run insurance company."

Richard Chapman (inset), benefits consultant for Bank Compensation Strategies Group, markets WSL products. He says his approach is two-fold, "I identify financial planning needs and design the appropriate benefit. My philosophy of service is to back all my promises with performance."

Rewards Everyone) was introduced to promote a greater understanding of the agent's service needs. Positive reinforcement for superior service is promoted through "CARE-GRAMS", quarterly all-employee meetings with agent guest speakers and a "Leaders Board" to create awareness of top sales agents by home office staff.

The "One Company, Multiple Location" concept moved closer to a reality with the decision to reorganize the two operating life companies, ALIC and WSL, into a single life insurance company. This new company will be renamed to align the U.S. Division more closely with its internationally recognized and financially strong parent company. Each of the operating companies will remain essentially autonomous but will now be identified in the marketplace as divisions of The Mutual Group (U.S.).



Income from operations increased significantly during the year in response to an improving group health insurance marketplace and favourable general expenses. However, net income at $9.9 million, versus $11.9 million in 1989, was adversely affected by the weaker than expected stock market.

Health insurance premiums rose sharply to $125.6 million, up 46% over 1989, partially the result of medical cost inflation, currently increasing in the U.S. at approximately 20% per year. Individual life insurance in force reached $9.5 billion, up 9% over 1989. The U.S. Division is very well capitalized, placing it in an enviable position relative to many of its peer companies.

Canadian Companies of The Mutual Group
Mutual Trustco Inc., The Mutual Trust Company and Mutual Securities Inc.

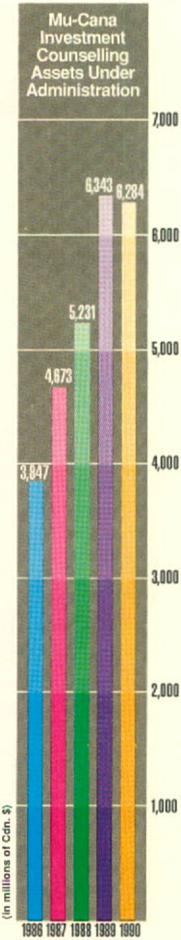
In 1990, Mutual Trust's growth continued in a difficult market. Assets grew from $689 million to $900 million representing an increase of 31%. Earnings of $4.7 million, representing a 13% return on equity, were lower than planned and historical levels as a result of the deteriorating economy and its effect on the securities and loan portfolios.

Deposits increased $196 million in the year. Further auto-

Lloyd Chiasson (feature photo) feels qualified to speak on Mutual products. This Georgetown, P.E.I. fisheries owner has used a range of vehicles since 1962, including individual life insurance, annuities, RRSPs, a group life and health plan for his employees, and disability insurance, which has helped him cope with multiple sclerosis.

Lloyd says he chose Mutual because "the company has a good track record and offered a safe haven for my funds. I haven't been disappointed."

Agent Jim McCloskey (inset), with Mutual 11 years, says he talks weekly with Lloyd to "provide service, inform him of new products or rates, and discuss changes in the industry."



mation has enabled Mutual Trust to continue to provide the markets it serves with high value-added products and services. To enhance its service and visibility to its clients in Québec, Mutual Trust recently opened its first branch operation in Montréal.

Mutual Securities Inc., a wholly-owned subsidiary of Mutual Trust, became a national firm in 1990, enabling it, in co-operation with the Mutual Life of Canada sales force, to offer a wider range of financial products to all Canadians.

Mu-Cana Investment Counselling Ltd.

1990 was a dismal year for investors in Canada. Unable to cope with high interest rates world-wide, political uncertainty in Ottawa and a deteriorating economy, investors sold stocks relentlessly. Long-term bonds, while performing much better than stocks over the year, also produced below average returns. Although a stronger fourth quarter moderated the impact to some extent, portfolios managed by Mu-Cana did not escape the damage inflicted by the markets. After achieving attractive returns in 1988 and 1989, the performance of Mu-Cana's balanced funds slipped in 1990.

As a result of declining market values and limited new sales, Mu-Cana's business did not expand in the past year. Assets under management amounted to $6.3 billion at the end of the year, unchanged from that reported in 1989. Of this total, $5 billion consisted of assets managed for large pension funds and other institutional portfolios, up slightly from the $4.9 billion in this category a year earlier.

The remainder of assets amounted to $1.3 billion in 1990 compared to $1.4 billion in 1989, a decrease of 7%. Mu-Cana manages these funds on behalf of Mutual Life of Canada (pooled pension funds) and Mutual Diversico (investment funds).

For 1991, Mu-Cana plans the introduction of an international investment vehicle to help meet its clients' needs. Better markets are anticipated before the end of the year. In any event, Mu-Cana is committed to providing clients with superior long-term performance.

Bill Norris (feature photo) is Personnel Director at Trinity Western University in Langley, B.C. Over 140 faculty and staff are covered under a defined contribution pension plan, in place since 1972. Bill says Mutual provides a broad range of products to meet the needs of employers and staff. "This plan provides for the future security of our people and allows them to focus on achieving the mission of the university."

Bill's Group Service Representative in nearby Vancouver is Jim Loughlean, FLMI, CEB, (inset). Jim explains he "tries to make the Plan Sponsor's job easy. My role as local contact is to be as helpful as I can in providing our clients with timely, accurate and friendly service."

The Mutual Group: Financial Management Practices

The sound financial management practices of all companies of The Mutual Group result from a history of strength and solid growth.

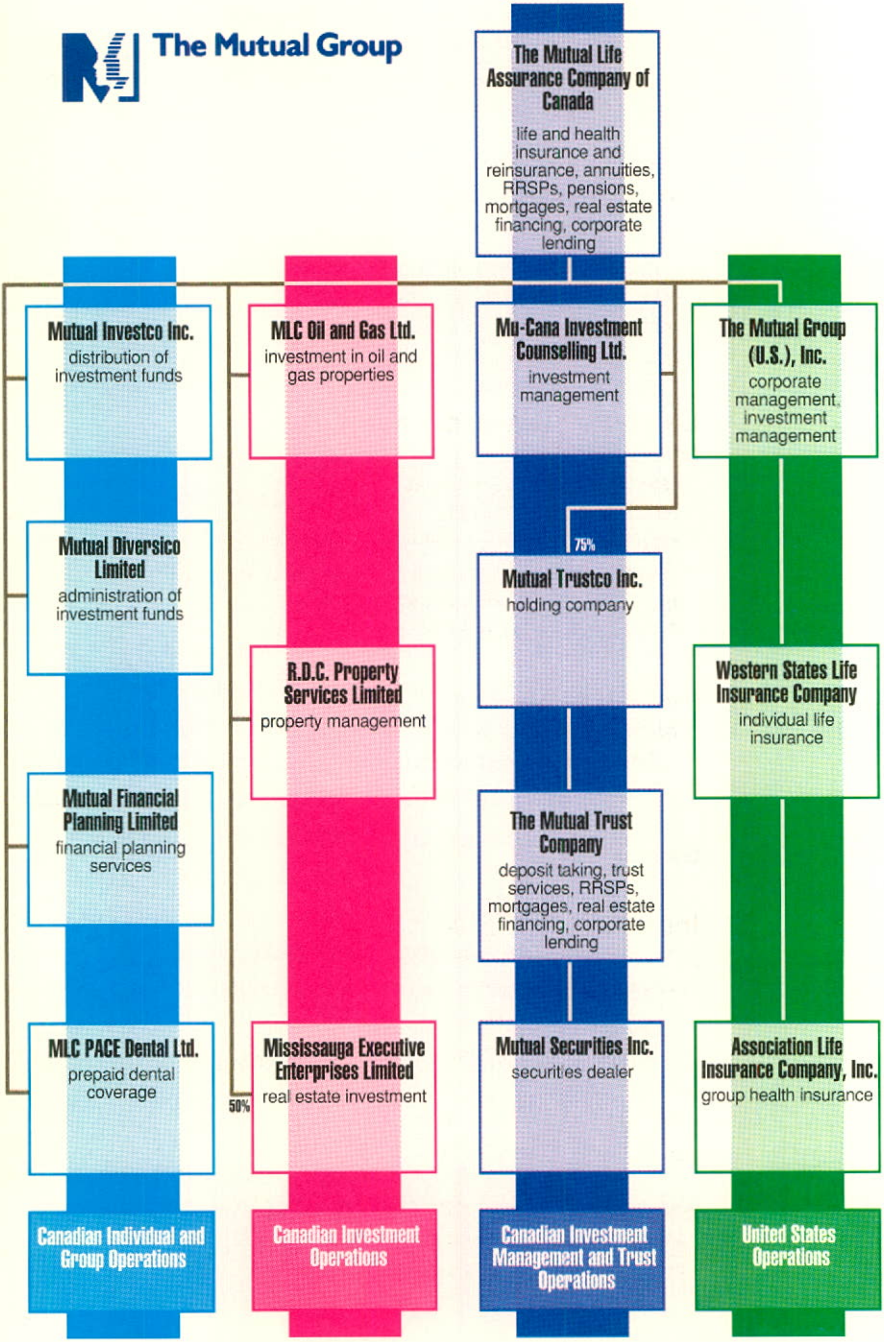
Liquid assets comprising cash and short-term investments amounted to $440 million at December 31, 1990. The companies have significant cash flow from premium income and deposits, net of benefits paid and expenses, plus investment income and asset repayments. Liquid assets together with cash flow from operations significantly exceed what is needed to meet the companies' obligations as they fall due.

Each of the companies has established policy guidelines to manage financial risks including asset default risk; asset concentration risk; foreign exchange risk; and interest rate risks. At year end, all the companies' positions were within established policy guidelines.

Mutual Life of Canada is a member of CompCorp, the organization which operates the life insurance industry's consumer protection plan and which has established minimum standards of capital adequacy. Mutual Life of Canada's capital position at year end was well in excess of this minimum level. The actuarial liabilities themselves make proper provision for contractual obligations payable in future. However, the Company's capital provides additional capability to meet risks related to adverse mortality and morbidity, asset default, interest rate fluctuations and other unforeseen contingencies.

Mutual Life of Canada is rated 'AAA' for its claims-paying ability by Standard & Poor's, an international credit rating firm. The companies of the U.S. Division are strongly capitalized, with Western States Life carrying the highest rating attainable, A+ superior, from A.M. Best Company, a leading U.S. credit rating agency. Association Life is rated A Excellent, also a very high rating. Mutual Trust maintains the level of capital as required by its regulator.

Corporate Organization



Consolidated Statement of Income and Retained Earnings

	December 31 1990	1989
	(in millions)	
Income		
Premiums for		
Annuities	**$1,282**	$1,086
Life insurance	**565**	526
Health insurance	**404**	344
	2,251	1,956
Net investment income (note 11)	**1,325**	1,184
Net market value gains and other income for variable benefit contracts	**(241)**	152
Other income	**42**	46
	3,377	3,338
Benefits and expenses		
Benefits paid		
Death and disability benefits	**170**	161
Health insurance benefits	**288**	248
Maturity and surrender values	**740**	632
Annuities	**315**	288
Interest on amounts on deposit	**143**	111
Policyholder experience dividends (note 2)	**179**	172
	1,835	1,612
Provision for future benefits		
Actuarial liabilities for:		
Annuity and insurance contracts	**1,166**	927
Variable benefit contracts	**(110)**	271
	2,891	2,810
General expenses	**385**	348
	3,276	3,158
Income before taxes and policyholder ownership dividends	**101**	180
Policyholder ownership dividends (note 2)	**30**	
Income before taxes	**71**	180
Income and premium taxes (note 12)	**32**	55
Net income	**39**	125
Retained earnings, beginning of year	**1,079**	954
Retained earnings, end of year	**$1,118**	$1,079
Net income allocated as follows		
Appropriated retained earnings	**$ 39**	$ 60
Unappropriated retained earnings		65
	$ 39	$ 125

Consolidated Balance Sheet

	December 31 1990	1989
	(in millions)	
Assets		
Cash and short term investments	**$ 440**	$ 417
Marketable bonds (note 3)	**2,908**	2,633
Corporate loans (note 4)	**1,448**	1,283
Common and preferred stocks (note 5)	**946**	925
Mortgage loans (note 6)	**4,538**	3,730
Real estate	**464**	432
Oil and gas properties	**86**	77
Other invested assets	**150**	133
Loans on policies	**348**	339
Segregated investments for variable benefit contracts	**2,041**	2,150
Accrued investment income	**177**	162
Other assets	**230**	193
	$13,776	$12,474
Liabilities		
Actuarial liabilities		
Annuity and insurance contracts (note 7)	**$ 8,984**	$7,829
Variable benefit contracts	**2,039**	2,149
	11,023	9,978
Amounts on deposit (note 8)	**1,357**	1,113
Secured indebtedness	**44**	60
Deferred net capital gains (note 9)	**67**	96
Income and premium taxes payable (note 14)	**60**	61
Other liabilities	**134**	115
	12,685	11,423
Policyholders' equity (note 10)		
Retained earnings		
Appropriated	**589**	550
Unappropriated	**529**	529
	1,118	1,079
Currency translation account	**(27)**	(28)
	1,091	1,051
	$13,776	$12,474

On behalf of the Board

Jack V. Masterman
Chairman of the Board
and Chief Executive Officer

Robert M. Astley
President and
Chief Operating Officer

James H. Smith
Director and Chairman
of the Audit Committee

Notes to the Consolidated Financial Statements

1. Summary of significant accounting policies

Mutual Life of Canada is governed by the Canadian and British Insurance Companies Act, and that Act, administered by the Office of the Superintendent of Financial Institutions Canada, determines its significant accounting policies. The more significant accounting policies and practices followed by the Company with respect to its annuity and insurance operations are:

a) *Basis of consolidation* - The financial statements include the assets, liabilities and results of operations of subsidiaries which are those corporations in which the Company owns more than 50% of the voting shares. Corporations in which the Company owns from 20% to 50% of the voting shares are reported in other invested assets in the consolidated balance sheet and are accounted for using the equity method. The Company's share of earnings of such corporations is reported in net investment income in the consolidated statement of income and retained earnings.

b) *Foreign currency* - Assets and liabilities denominated in foreign currencies are translated at year-end exchange rates. Revenues and expenses are translated at average exchange rates for the year.

   Gains and losses from currency translation of foreign operations are shown in the currency translation account, a separate item in policyholders' equity. Gains and losses from currency translation of domestic operations are included in current income except for realized and unrealized gains and losses arising from the translation of marketable bonds, corporate loans and common and preferred stocks, which are amortized to income in a manner consistent with the accounting policy of the related item.

c) *Marketable bonds, corporate and mortgage loans* - Marketable bonds are carried at amortized cost. Corporate and mortgage loans are carried at amortized cost less repayments. Realized gains (losses) on sale are considered to be adjustments of future portfolio yields and are shown in the consolidated balance sheet as part of deferred net capital gains. They are taken into income over the lesser of the period to maturity of the investment or twenty years from the date of sale.

   Non-performing marketable bonds, corporate and mortgage loans include non-insured amounts which are three months or more in arrears as well as marketable bonds, corporate and mortgage loans which are less than three months in arrears and are determined by management to be non-performing. Such investments are valued at an amount which does not exceed estimated net realizable value.

d) *Common and preferred stocks* - Common and preferred stocks are carried at cost. Unamortized realized gains (losses) on the sale of stocks and an adjustment toward market value from book value as described below, are reflected in the consolidated balance sheet as part of deferred net capital gains. Fifteen percent of the realized capital gains (losses) for the year plus fifteen percent of the current market excess (deficiency) and of the previous year's stock component of deferred net capital gains (losses) are brought into income.

e) *Real Estate* - Real estate is carried at cost less accumulated depreciation to December 31, 1985 and a cumulative adjustment toward market value. This adjustment reflects ten percent of the current year's market excess (deficiency). Unamortized realized gains (losses) on the sale of real estate are reflected in the consolidated balance sheet as part of deferred net capital gains. Ten percent of the realized capital gains (losses) for the year plus ten percent of the current market excess (deficiency) and of the previous year's real estate component of deferred net capital gains (losses) are brought into income.

f) *Loans on policies* - Policy loans are made to policyholders on the security of their policies in accordance with the provisions of their policy contracts. Policy loans are carried at their unpaid balance and are fully secured by the policy values.

g) *Segregated investments for variable benefit contracts* - Investments held for variable benefit contracts are carried at market value.

h) *Other assets* - Included in other assets is equipment which is carried at cost less accumulated depreciation and is depreciated over its estimated useful lifetime using the straight-line method. Also included is the unamortized excess of purchase price of subsidiary companies over the book value of net assets acquired. This excess is being amortized using the straight-line method over a period not exceeding fifteen years from the date of acquisition.

i) *Actuarial liabilities* - Actuarial liabilities are the amounts determined by the Valuation Actuary which, together with future premiums and investment income, will provide for future policy benefits, including dividends, and related expenses on annuity and insurance policies. The liabilities are valued using the 1978 Canadian Method which requires assumptions considered to be appropriate to the policies in force and provides for the deferral of certain costs of acquiring policies.

j) *Income taxes* - Income tax expense is the amount estimated to be currently payable.

k) *Pensions* - The pension expense for the year is management's best estimate of pension benefit costs reduced by the amortization of experience gains. These gains are based on the five year moving average market value of pension assets and are amortized over the expected average remaining service life of the participants of the various plans.

l) *Comparative figures* - Certain 1989 figures have been reclassified to conform with the presentation adopted in the current year.

2. Policyholder dividends

Policyholder experience dividends represent a refund of experience gains earned in respect of the various classes of policies.

Policyholder ownership dividends represent the sharing by participating policyholders, as owners, of the earnings of the Company in excess of those required to finance growth and diversification. The Board of Directors approved the payment of ownership dividends in the amount of $30 million to all participating policyholders payable October 1, 1990. These dividends were allocated to individual and group policyholders on the basis of the accumulated historical surplus position of each category of policyholders.

3. Marketable bonds

	1990		1989	
	Book Value	**Market Value**	Book Value	Market Value
		(in millions)		
Government bonds	**$1,756**	**$1,756**	$1,700	$1,774
Corporate bonds	**1,152**	**1,141**	933	953
	$2,908	**$2,897**	$2,633	$2,727

Non-performing marketable bonds are included at their estimated net realizable value at December 31, 1990, of $1 million ($2 million in 1989).

4. Corporate loans

Non-performing corporate loans are included at their estimated net realizable value at December 31, 1990, of $10 million ($3 million in 1989).

5. Common and preferred stocks

	1990		1989	
	Book Value	**Market Value**	Book Value	Market Value
		(in millions)		
Common stocks	**$619**	**$ 815**	$525	$ 812
Preferred stocks	**327**	**308**	400	400
	$946	**$1,123**	$925	$1,212

6. Mortgage loans

	1990	1989
	(in millions)	
Conventional loans	**$3,990**	$3,199
Insured loans	**548**	531
	$4,538	$3,730

Non-performing mortgage loans are included at their estimated net realizable value at December 31, 1990, of $55 million ($7 million in 1989).

7. Actuarial liabilities for annuity and insurance contracts

	1990	1989
	(in millions)	
Annuities	**$6,621**	$5,694
Life insurance	**1,840**	1,681
Health insurance	**418**	348
Policy benefits in course of payment and provision for unreported claims	**105**	106
	$8,984	$7,829

The valuation method used makes allowance for deferred acquisition costs at December 31, 1990, of $260 million ($242 million in 1989).

8. Amounts on deposit

	1990	1989
	(in millions)	
Insurance deposits	**$ 573**	$ 535
Trust company guaranteed trust deposits	**784**	578
	$1,357	$1,113

9. Deferred net capital gains

Deferred net capital gains are amounts of unamortized realized gains (losses) less unrealized stock gains (losses) taken into income.

	1990	1989
	(in millions)	
Common and preferred stocks	**$30**	$46
Marketable bonds and corporate loans	**27**	39
Real estate	**10**	11
	$67	$96

10. Policyholders' equity

Policyholders' equity includes retained earnings required by the Office of the Superintendent of Financial Institutions Canada to be appropriated in respect of asset and actuarial valuations together with a general contingency reserve deemed appropriate by management to provide additional protection against market and currency fluctuations, abnormal claims fluctuations and other unforeseen events.

	1990	1989
	(in millions)	
Asset valuation reserve	**$156**	$145
Cash values deficiency reserve	**59**	54
Unregistered reinsurance reserve	**42**	35
Currency reserve	**7**	51
General contingency reserve	**325**	265
Appropriated retained earnings	**$589**	$550

The currency translation account, shown on the consolidated balance sheet, reflects a currency gain of $1 million in 1990 (loss of $6 million in 1989).

11. Net investment income

	1990	1989
	(in millions)	
Interest, dividends, and net rents	**$1,303**	$1,136
Amortized gains from stocks	**39**	63
Amortized gains from real estate	**14**	13
Amortized losses from marketable bonds, corporate and mortgage loans	**(3)**	(2)
Investment expenses	**(28)**	(26)
	$1,325	$1,184

Net investment income reflects asset write-downs and losses, net of recoveries, of $14 million ($8 million in 1989).

12. Income and premium taxes

	1990	1989
	(in millions)	
Net income	**$39**	$125
Add: Provision for income taxes	**17**	41
Income before income taxes	**56**	166
Provision for income taxes at statutory rates	**24**	71
Increase (decrease) in taxes resulting from		
• Dividends from taxable Canadian corporations and other non-taxable investment income	**(28)**	(26)
• Reversal of amortized gains and losses from stocks, marketable bonds, corporate and mortgage loans, and real estate	**(19)**	(33)
• Taxable gains (losses) arising from the sale of assets	**(1)**	19
• Adjustment of actuarial liabilities to tax basis	**(9)**	(13)
• Other	**(3)**	6
	(36)	24
Loss for income tax purposes not recoverable in current year	**12**	
Provision (recovery) for tax on income	**(24)**	24
Transitional taxes arising from Tax Reform	**19**	11
Minimum taxes and Investment Income Taxes	**22**	6
Income taxes	**17**	41
Premium taxes	**15**	14
Income and premium taxes	**$32**	$ 55

Minimum taxes include Federal Capital Tax on Financial Institutions and Large Corporations Tax.

In addition to income and premium taxes, the Company incurred real estate, payroll, business and other taxes during the year in the amount of $27 million ($22 million in 1989). The Company's tax burden for all of these items amounted to $59 million in 1990 ($77 million in 1989).

13. Company pension plans

The Company has pension plans which cover essentially all of its employees and some of its agents. Benefits are provided on defined benefit and defined contribution bases and reflect compensation history, length of service, and level of contributions.

Estimates of the five year average market value of assets and the value of accrued benefits under the defined benefit plans are as follows:

	1990	1989
	(in millions)	
Value of assets	**$233**	$223
Value of accrued benefits	**$181**	$163

14. Income tax contingency

Revenue Canada has reassessed the Company for the taxation years 1977 through 1985. On the basis of the reassessments, taxes could increase by $19 million for these taxation years.

The Company disagrees with Revenue Canada's interpretation of the Income Tax Act as it applies to several material issues raised in the reassessments and has filed the appropriate objections. Certain matters in dispute reflect changes in Revenue Canada's position with respect to practices previously accepted by the taxing authorities.

It is the opinion of the Company's management and its auditors, supported by the advice of independent legal counsel, that corporate income taxes have been provided in the accounts in accordance with the provisions of the Income Tax Act.

The complexity of the Income Tax Act as it applies to life insurance companies requires judgements to be made on matters not yet considered by the Courts. In recognition of the length of time which will elapse before the matters in dispute can be finally resolved, the Company has adopted the following policy with respect to accounting for income taxes.

Income taxes will be recorded in the consolidated statement of income and retained earnings on the basis of the Company's interpretation of the application of the relevant provisions of the Income Tax Act. Such interpretations are established with the assistance of the independent taxation advisors. Any difference between the Company's position and the ultimate taxes payable would be reflected in the Company's accounts and recorded as a prior period adjustment in retained earnings.

Valuation Actuary's Report to the Directors and Policyholders

I have made the valuation of actuarial liabilities of The Mutual Life Assurance Company of Canada and of its subsidiary companies for its consolidated balance sheet at December 31, 1990 and its consolidated statement of income and retained earnings for the year then ended. In my opinion, (i) the valuation conforms to Recommendations for Life Insurance Company Financial Reporting of the Canadian Institute of Actuaries, (ii) the amount of the actuarial liabilities in the consolidated balance sheet makes proper provision for the obligations payable in the future under the companies' contracts, (iii) a proper charge on account of those liabilities has been made in the consolidated statement of income and retained earnings, (iv) the amount included in appropriated retained earnings to cover the excess of cash surrender values over actuarial liabilities is proper, and (v) the methods used do not differ materially from those used in the prior valuation.

K.K. von Schilling, F.S.A., F.C.I.A.
Vice-President and Chief Actuary

January 30, 1991

Auditors' Report to the Directors and Policyholders

We have audited the consolidated balance sheet of The Mutual Life Assurance Company of Canada as at December 31, 1990 and the consolidated statement of income and retained earnings for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We have accepted the actuarial liabilities in the amount determined and certified by the Valuation Actuary.

In our opinion, based on our audit and our reliance on the report of the Valuation Actuary, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1990 and the results of its operations for the year then ended in accordance with accounting practices as set out in note 1 to the consolidated financial statements. These accounting practices are prescribed or permitted by the Office of the Superintendent of Financial Institutions Canada.

PEAT MARWICK THORNE
Chartered Accountants
Kitchener, Ontario

January 30, 1991

Your Board of Directors

Jack V. Masterman
F.S.A., F.C.I.A.
Chairman and
Chief Executive Officer
Waterloo, Ont.[1]

Robert M. Astley
F.S.A., F.C.I.A.
President and
Chief Operating Officer
Waterloo, Ont.[1]

G. H. Blumenauer
Vice-Chairman
of the Board
Oakville, Ont.[1 3 4]

Agnes M. Benidickson
O.C., LL.D.
Ottawa, Ont.[4]

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C.M., LL.D., F.C.A.
Niagara-on-the-Lake, Ont.[1 2]

W. P. Cooper
B.Sc., P.Eng.
Hamilton, Ont.[3]

Pierre Côté, C.M.
Québec, PQ [1 3]

C. William Daniel
O.C., LL. D.
Toronto, Ont.

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LL. B., Q.C.
Winnipeg, Man.[2]

J. M. Hay, M.P.E., Ph.D.
Sarnia, Ont.[2]

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Kitchener, Ont.[3]

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Vancouver, B.C.[4]

William James
Toronto, Ont.[1 2 4]

B. C. Matthews
A.M., Ph.D., D.U., LL.D.
Waterloo, Ont.[4]

H. J. S. Pearson
Edmonton, Alta.[1 4]

P. J. Phoenix, M.B.A.
Hamilton, Ont.[3]

N. W. Robertson
Calgary, Alta.[2]

J. H. Smith, F.C.A.
Montréal, PQ [1 2]

[1] Member of the Executive Committee
[2] Member of the Audit Committee
[3] Member of the Compensation Committee
[4] Member of the Nominating Committee

Honorary Directors

J. H. Panabaker
M.A., LL.D.
Honorary Chairman
of the Board
Kitchener, Ont.

W. M. Anderson, C.A.
Vancouver, B.C.

W. A. Bean, C.B.E.
Waterloo, Ont.

R. W. Cooper, D.Sc.
Burlington, Ont.

Édouard Fiset
O.C., F.R.A.I.C.
Montréal, PQ

K. R. MacGregor
F.S.A., F.C.I.A.
Waterloo, Ont.

H. L. McCulloch
Cambridge, Ont.

G. D. Stanfield
Halifax, N.S.

Officers

Corporate Management

Jack V. Masterman
F.S.A., F.C.I.A.
Chairman and
Chief Executive Officer

Robert M. Astley
F.S.A., F.C.I.A.
President and
Chief Operating Officer

David A. MacIntosh
M.A.
Executive Vice-President

Individual Marketing/ Operations Divisions

Lyle G. Shapansky
C.L.U.
Vice-President
Individual
Marketing Division

Barry J. Triller
F.S.A., F.C.I.A.
Vice-President
Individual
Operations Division

John M. Riley
Vice-President
Individual
Marketing Services

Herbert H. Spencer
F.L.M.I.
Vice-President
Individual Administration

Group Division

Donald A. Post
F.L.M.I.
Senior Vice-President
Group Division

Alexander J. Brown
F.S.A., F.C.I.A.
Vice-President
Group
Pension Operations

Pierre L. Denommé
F.L.M.I.
Vice-President
Group Administration

John D. Reynolds
M.B.A., F.L.M.I.
Vice-President
Group Marketing

Alison H. Watson
F.S.A., F.C.I.A.
Vice-President
Group Client Services

Investment Division

Duncan R. Winhold
F.S.A., F.C.I.A.
Vice-President
Equity Investments

Corporate Services and Staff

Paul B. Boundy
F.S.A., F.C.I.A.
Vice-President
Corporate Planning
and Development

E. Austin Fricker
C.A.
Vice-President, Finance

Claude Gingras
LL.L., LL.B., LL.M.
Vice-President
and General Counsel

R. Lorne MacKinnon
F.S.A., F.C.I.A.
Vice-President
Quality Service

Mary F. McLaughlin
Vice-President
Public Affairs

Kurt K. von Schilling
F.S.A., F.C.I.A., M.A.A.A.
Vice-President and
Chief Actuary

William W. Yeo
Vice-President
Information Systems

Glenn E. Bier
M.B.A., A.S.A., F.C.I.A.
Secretary

United States Division - Subsidiaries

Kenneth L. Evason
M.A., C.F.A.
President and
Chief Executive Officer
The Mutual Group (U.S.), Inc.

E. Everett Edwards
President and
Chief Operating Officer
Association Life
Insurance Company, Inc.

S. N. Kaufman *
B.A., M.B.A.
President and
Chief Operating Officer
Western States Life
Insurance Company

Canadian Subsidiaries

H. Edward Brough
C.F.A.
President and Chief
Executive Officer
Mu-Cana Investment
Counselling Ltd.

Raymond Doré
C.A.
President and
Chief Executive Officer
Mutual Trustco Inc., and
The Mutual Trust Company

Kenneth R. MacGregor
P.Eng.
President and
Chief Executive Officer
MLC Oil and Gas Ltd.

*Effective March 1, 1991

Ownership Dividend - Another First for Mutual

“Your concept of an ownership dividend clearly distinguishes you from other insurance companies and reinforces the uniqueness of Mutual Life.” (letter from policyholder)

This letter was one of hundreds policyholders sent to Mutual Life of Canada about the Ownership Dividend, a special payment made over and above regular experience dividends. A total of $30 million was distributed in October, 1990, to policyholders who own over 800,000 participating policies. Whether the client was an individual with one policy or an organization with a large group contract, each received a cheque in proportion to the value of the policy.

This initiative, a first for Mutual, is unique in the industry. It reflects a commitment to the principle which formed this Company - mutuality. In 1870, the Company founders built the first Canadian mutual life insurance company with funds from the first 500 policyholders. Mutual is the only Canadian life insurance company established from the beginning in this way, with no shareholders or private owners. The policyholders are the owners.

In 1990, Mutual created and launched its Vision for the '90s, a strategy for the future distilled in the single statement “to be the best in the financial markets we serve.” In defining how this goal will be achieved, all existing operating structures were put to the test. The concept of mutuality was examined, with these questions in mind: “Is this structure still appropriate for the modern world? What does it mean to policyholders?”

The answers were clear. Mutuality is not an outdated principle to be shelved. It can and should have relevance for policyholders now and in the future. For this reason, an enhanced commitment to mutuality is a fundamental part of Mutual's new Vision statement. The Ownership Dividend is one step the Company has taken to show policyholders that ownership counts in concrete terms.

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