1983 ANNUAL REPORT

MUTUAL LIFE OF CANADA

Chairman and Chief Executive Officer John Panabaker (left), with Jack Masterman, President and Chief Operating Officer.

A Message to Policyholders

Mutual Life of Canada had a satisfactory year in 1983. Sales of new business, increase in business in force and growth of assets were all excellent. Operating income remained low.

Many forces which reduced operating income in 1982 also affected 1983 results. These included reduced margins on savings products, as well as cost pressures associated with rapid sales growth and heavy demands for service. Mortality experience worsened slightly in 1983. Operating income is expected to improve in 1984 as the economic recovery continues, and productivity initiatives undertaken in 1983 become fully effective.

Sales of individual life insurance increased 12%, following an increase of 37% in 1982. Since Mutual Life is an industry leader in retention of business, the result was a gratifying increase of 18% in individual life insurance in force. Individual annuity sales (excluding funds transferred from other Mutual Life policies) showed a modest increase. Early in 1984, the Company will offer through its field force, an Indexed Security Investment Plan and a computerized financial planning service.

Group operations had an outstanding year. Several very large group life cases were awarded to the Company and group pension cases sold by Mutual Life agents almost doubled. In recent years, the Company has increased both market share and earnings from group business; we anticipate further progress in 1984.

Funds for investment increased 37% because of lower cash demands from policyholders, strong sales of savings products, and heavy bond maturities and mortgage repayments. About 70% of these funds were invested in commercial, industrial and single family mortgages and private placement loans. Mutual Life's investments are of high quality, and losses resulting from the recession were very small compared to those suffered by other financial institutions.

The Company's major subsidiaries did well. Assets managed by Mu-Cana Investment Counselling now exceed $1 billion — a 49% increase. MLC Oil and Gas is becoming recognized as a significant player in Canada's petroleum industry. Association Life Insurance Company of Milwaukee, acquired late in 1982, made a smooth transition to Mutual Life ownership, and produced very satisfactory earnings.

At the last annual meeting, K.R. MacGregor retired from the Board after giving distinguished service to the Company as President, Chairman of the Board, and Chairman of the Executive Committee. J.T. Hill of Kitchener joined the Board. A significant management change occurred in June, when D.R. Winhold became Senior Vice-President with broad responsibilities for investments and corporate services, and D.A. MacIntosh was named Vice-President (Finance) and Treasurer.

The financial services industry in Canada is changing rapidly. Mutual Life of Canada strongly supports the insurance industry's brief to the federal government for modernization of obsolete governing legislation. As this urgent task moves to completion, the Company looks forward to providing you with a growing array of financial services.

In summary, 1983 has been a challenging year. Mutual Life of Canada is well positioned to compete in 1984, thanks to the loyalty, efficiency and enthusiasm of its staff and field force and to your continued support.

John H. Panabaker

JOHN H. PANABAKER
Chairman and
Chief Executive Officer

J. V. Masterman

J. V. MASTERMAN
President and
Chief Operating Officer

Highlights

	1983	1982 (in thousands)	% Change
New life insurance			
Individual	$ 5,170,317	$ 4,604,024*	12.3
Group	3,391,061	1,178,191	187.8
Total	$ 8,561,378	$ 5,782,215	48.1
Life insurance in force at Dec. 31			
Individual	$22,225,369	$18,873,862	17.8
Group	16,362,830	12,713,870	28.7
Total	$38,588,199	$31,587,732	22.2
New premium income			
Life	$ 48,578	$ 34,122	42.4
Health	15,924	13,132	21.3
Annuities	321,725	335,879*	−4.2
Total	$ 386,227	$ 383,133	.8
Total premium income	$ 807,137	$ 759,124	6.3
Total payments to policyholders and beneficiaries	$ 604,526	$ 584,356	3.5
Dividends to policyholders (included above)			
Individual	$ 66,370	$ 65,292	1.7
Group	15,085	13,441	12.2
Total	$ 81,455	$ 78,733	3.5
Operating income for the year	$ 28,931	$ 31,344	−7.7
Assets	$ 5,155,511	$ 4,487,401	14.9
Retained earnings	$ 499,086	$ 463,230	7.7

*Restated

This Annual Report is sent to all of the more than 550,000 policyholders of The Mutual Life Assurance Company of Canada. It will be presented at the 114th Annual Meeting which will be held at the Company's head office in Waterloo, Ontario, on February 22, 1984, 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 field offices.

Every day, Mutual Life of Canada agents, group representatives, estate planners, and staff see Canadians to assist them in making better decisions about their financial futures.

In 1983 this resulted in sales of 95,000 new individual life and annuity policies. In addition, Mutual wrote 720 new group policies covering some 160,000 certificate holders. 2,000 estate plans were also completed.

Agent Gaston Drouin, Grand-mère, Québec, (right), meets with two policyholders.

Statement of Operations

	For the Year 1983	1982
	(in thousands)	
Income		
Premiums for		
Life insurance	$ 253,501	$ 227,993
Health insurance	143,939	126,190
Annuities	409,697	404,941
	807,137	759,124
Investment income (note 12)	485,842	443,101
Other income for variable benefit contracts (note 13)	83,512	53,863
	1,376,491	1,256,088
This income was used for		
Payments to policyholders and beneficiaries		
Death and disability benefits	89,746	73,486
Health insurance benefits (note 14)	101,556	88,576
Maturity and surrender values	192,854	204,490
Annuities	109,119	109,487
Interest on amounts on deposit	29,796	29,584
Dividends	81,455	78,733
	604,526	584,356
Increase in actuarial liability for insurance and annuity contracts	399,163	336,757
Increase in liability for variable benefit contracts	185,518	157,213
Increase (decrease) in provision for dividends to policyholders in the following year	(306)	1,997
General expenses and business taxes	145,120	139,911
Income and premium taxes (note 15)	13,539	4,510
	1,347,560	1,224,744
Operating income for the year	28,931	31,344
Adjustment in United States dollar exchange rate (note 1i)	6,925	
Net income for the year	$ 35,856	$ 31,344

	1983	1982
	For the Year (in thousands)	
Allocated as follows		
Reserves for		
Valuation of investments and other assets	$ **8,500**	$ 7,000
Contingencies	**15,500**	13,500
Unappropriated retained earnings	**11,856**	10,844
	$ **35,856**	$ 31,344

On behalf of the Board

JOHN H. PANABAKER
Chairman and
Chief Executive Officer

J. V. MASTERMAN
President and
Chief Operating Officer

Mutual Life of Canada has assets of more than 5 billion dollars; but perhaps as important as the dollars invested are the opportunities they represent. Typical of these investment dollars at work is the Company's 50% ownership interest in the new Hotel Newfoundland in St. John's. Mutual Life's Newfoundland property investments are managed by Atlantic Region Property Investments Manager Dick Fines of Halifax. Seen in the picture are several St. John's field people: Group Insurance Manager Frank Noseworthy, Office Manager Bob Boehner, Branch Manager Arthur Pearce, and Associate Manager Harold Sheppard.

The Company invests in all regions of Canada. Its eleven property investments offices administer a growing portfolio of residential and non-residential mortgages and real estate, which represents over $1.8 billion of policyholders' funds.

Balance Sheet

	December 31 1983	1982
	(in thousands)	
Assets		
Cash and short term investments (note 2)	$ **308,281**	$ 296,990
Bonds (note 3)	**1,653,083**	1,409,305
Common and preferred stocks (note 4)	**207,692**	154,186
Mortgage loans (note 5)	**1,575,699**	1,475,455
Real estate held for production of income (note 6)	**204,089**	171,045
Office premises and equipment	**39,295**	35,281
Loans on policies	**308,251**	311,086
Segregated investments for variable benefit contracts	**680,103**	494,794
Investment in and loans to affiliated corporations (note 7)	**52,913**	36,025
Accrued investment income	**83,459**	80,871
Premiums in course of collection	**19,448**	13,391
Other assets	**23,198**	8,972
	$5,155,511	$4,487,401

	December 31 1983	1982
	(in thousands)	
Liabilities		
Actuarial liabilities		
Insurance and annuity contracts (note 8)	**$3,445,682**	$3,046,399
Variable benefit contracts	**678,038**	492,520
Policy benefits in course of payment and provision for unreported claims	**40,485**	35,254
Provision for dividends to policyholders in the following year	**87,759**	88,064
	4,251,964	3,662,237
Policy proceeds, dividends, and other amounts on deposit	**306,731**	280,050
Mortgages on real estate investments	**39,411**	39,975
Income and premium taxes payable	**8,989**	2,794
Other liabilities	**49,330**	39,115
	4,656,425	4,024,171
Retained Earnings		
Reserves for		
Valuation of investments and other assets (note 9)	**107,000**	98,500
Contingencies (note 10)	**144,500**	129,000
Unappropriated retained earnings (note 11)	**247,586**	235,730
	499,086	463,230
	$5,155,511	$4,487,401

Mutual Life of Canada is committed to a high standard of service to policyholders; computers have helped this commitment become a reality. The Company administers over one million individual and annuity policies, serving 550,000 policyholders, and over 6,000 group policies covering 1,200,000 certificate holders. On average, it issues 380 new insurance and annuity policies, and 7,200 payments per working day. Computers are a major tool for ensuring this work is done quickly and efficiently.

Field offices across the country are linked directly to the head office by computer. Policyholders can transact their business with the Company faster than ever, even though several thousand kilometers may separate them from the Waterloo head office.

Statement of Reserve for Valuation of Investments and Other Assets

	For the Year 1983	1982
	(in thousands)	
Balance at beginning of year	**$ 98,500**	$ 91,500
Allocation of net income for the year	**8,500**	7,000
Balance at end of year	**$107,000**	$ 98,500

Statement of Reserve for Contingencies

	For the Year 1983	1982
	(in thousands)	
Balance at beginning of year	**$129,000**	$115,500
Allocation of net income for the year	**15,500**	13,500
Balance at end of year	**$144,500**	$129,000

Statement of Unappropriated Retained Earnings

	For the Year 1983	1982
	(in thousands)	
Balance at beginning of year	**$235,730**	$224,886
Allocation of net income for the year	**11,856**	10,844
Balance at end of year	**$247,586**	$235,730

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.

Loans which are six months or more in arrears, or do not meet management's criteria for collectibility of principal or interest, are classified as non-performing and are valued at an amount which does not exceed estimated net realizable value.

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 production of income
Real estate held for production of income is carried at cost less accumulated depreciation. Leaseback properties are depreciated at rates determined by the terms of the leases. Other buildings are depreciated over their estimated useful life using the straight line method.

d) Office premises and equipment
Office premises and equipment are carried at cost less accumulated depreciation and are depreciated over their estimated useful life using the straight line method.

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 investment in affiliated corporations is accounted for using the equity method.

The excess of the purchase price of Association Life Insurance Company, Inc., over statutory value as at the date of acquisition is being amortized over a ten-year period commencing in 1983. This unamortized balance has been appropriated from retained earnings as a reserve in accordance with the requirements of the Department of Insurance of Canada.

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 $1.15 Canadian to the U.S. dollar for 1983 ($1.10 in 1982) 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:

	1983	1982
	(in thousands)	
Cash	$ (36,768)	$ (13,238)
Canada treasury bills	239,732	32,028
Other government instruments	2,929	40,785
Bank instruments - marketable	75,738	101,715
- non-marketable	26,650	135,700
	$ 308,281	$ 296,990

3. Bonds

The distribution of bonds is as follows:

	1983	1982
	(in thousands)	
Government of Canada bonds	$ 330,786	$ 287,431
Provincial, other government, and municipal bonds	422,374	314,882
Public utility, industrial, and other bonds	899,923	806,992
	$1,653,083	$1,409,305

The value of bonds includes $50,012,000 ($56,383,000 in 1982) to reflect unamortized losses on sales.

4. Common and preferred stocks
The value of stocks has been decreased by the bulk adjustment of $78,026,000 ($57,639,000 in 1982).

5. Mortgage loans
The distribution of mortgage loans is as follows:

	1983	1982
	(in thousands)	
CMHC insured loans	$ 305,147	$ 299,468
Other insured loans	189,900	195,443
Conventional loans	1,080,652	980,544
	$1,575,699	$1,475,455

Included above are non-performing mortgage loans at their estimated net realizable value at December 31, 1983 of $30,236,000 ($27,874,000 in 1982).

6. Real estate held for production of income

	1983 (in thousands)			1982
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Wholly-owned	$ 89,467	$ 13,705	$ 75,762	$ 63,238
Joint ventures	115,131	1,954	113,177	91,869
Leasebacks	29,509	14,359	15,150	15,938
	$234,107	$ 30,018	$204,089	$171,045

7. Investment in and loans to affiliated corporations

Name of Company	Nature of Business	1983	1982
		(in thousands)	
• Association Life Insurance Company, Inc.	Life and health insurance in the United States	$ 28,889	$ 15,190
• MLC Oil and Gas Ltd.	Oil and gas property	17,275	14,570
• Mississauga Executive Enterprises Limited	Real estate development	6,483	6,157
• MuCana Investment Counselling Ltd.	Investment management	189	105
• Executive Financial Counselling Ltd.	Financial and estate planning services	75	1
• MuCana Data Services Ltd.	Microfiche services	1	1
• RDC Property Services Ltd.	Property management	1	1
		$ 52,913	$ 36,025

These corporations are wholly owned except Mississauga Executive Enterprises Limited (50% owned).

MLC Oil and Gas Ltd. follows the full cost method of accounting for its oil and gas property.

MuCana Investment Counselling Ltd., has,under its management, investments at December 31, 1983 of $593,800,000 ($392,300,000 in 1982) not included in the Balance Sheet.

8. Actuarial liability for insurance and annuity contracts
The distribution of the actuarial liability is as follows:

	1983	1982
	(in thousands)	
Life insurance	$ 978,836	$ 957,654
Health insurance	166,586	131,151
Annuities	2,300,260	1,957,594
	$3,445,682	$3,046,399

The valuation method used makes allowance for deferred acquisition costs of $129,095,000 ($121,853,000 in 1982).

9. 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:

	1983	1982
	(in thousands)	
Reserve for valuation of investments	$ 49,170	$ 44,656
Reserve for unamortized balance of purchase price of subsidiaries over statutory value	7,045	7,370
Reserve for certain assets	10,882	11,156
Total required reserve	67,097	63,182
Credit with respect to foreign currency valuation	15,951	18,621
Net required reserve	$ 51,146	$ 44,561

If current rates of exchange had been used in valuing assets and liabilities, retained earnings would have been increased by the amount shown above for credit with respect to foreign currency valuation. However, the net required reserve would also have been increased by a corresponding amount.

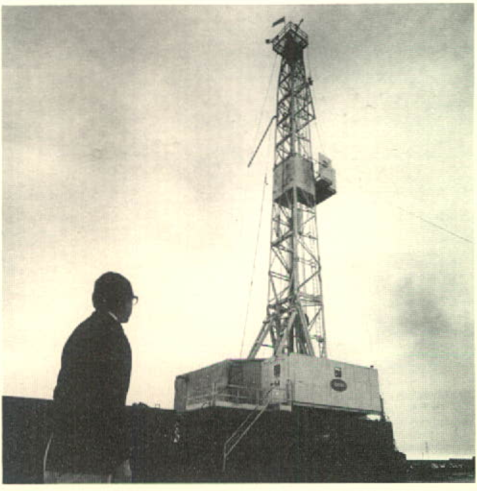
Amounts appropriated in excess of the statutory requirements provide additional protection against market and currency fluctuations.

10. 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 $45,194,000 ($42,780,000 in 1982). Amounts appropriated in excess of the statutory requirement provide protection against abnormal claims fluctuations and other unforeseen events.

11. Unappropriated retained earnings

Included in unappropriated retained earnings is $2,065,000 ($2,274,000 in 1982) in segregated funds for variable benefit contracts.



Directly, and through subsidiary companies such as MLC Oil & Gas Ltd., Mutual Life of Canada puts premium dollars to work for policyholders. By providing capital for Canada's resource industries, it is helping to ensure the nation's prosperity in the years ahead.

Such activity requires Mutual Life people on the scene. Malcolm Reynolds is Executive Officer (Western Canada Investments), and President of MLC Oil & Gas; he and his staff work from their office in Calgary. Malcolm is seen inspecting a rig in an Alberta oil field.

12. Investment income

Investment income consists of the following:

	1983	1982
	(in thousands)	
Interest, dividends, and net rents	$ 485,137	$ 449,172
Amortized gains from stocks	16,760	10,499
Amortized losses from bonds & mortgage loans	(4,849)	(5,830)
Investment expenses	(11,206)	(10,740)
	$ 485,842	$ 443,101

13. Other income for variable benefit contracts

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

14. Health Insurance Benefits

In addition to the benefits shown, the Company paid $37,875,000 ($21,563,000 in 1982) in health claims on behalf of clients under contracts for administrative services only.

15. Income and premium taxes

	1983	1982
	(in thousands)	
Income Taxes	$ 7,115	$ (1,106)
Premium Taxes	6,424	5,616
	$ 13,539	$ 4,510

16. Company pension plans

No unfunded liability exists under the staff or agents' pension plans.

The Mutual Life Daycare Centre, adjacent to the head office building, was among the first in the country to be established by an employer for its employees. It enables staff members to find quality daycare for their children, close to the workplace. Cathy Summerhayes of the Daycare Centre is seen working with several children of employees.

The Daycare Centre is financially self-supporting, with fees on a par with those charged in the community; more than forty children are enrolled in the program. The Centre is a department of the Company and is staffed by qualified professionals.

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, 1983 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 18, 1984

Auditor's Report to the Directors and Policyholders

We have examined the balance sheet of The Mutual Life Assurance Company of Canada as at December 31, 1983 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, 1983 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 18, 1984

Board of Directors

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W. J. STENASON, B.Comm., M.Comm., Ph.D. (Econ.),
Calgary, Alta. 2

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2 Member of the Audit Committee
3 Member of the Compensation Committee
4 Member of the Nominating Committee

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Honorary Chairman of the Board, Waterloo, Ont.
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H. L. McCULLOCH, Cambridge, Ont.
J. S. PROCTOR, LL.D., Toronto, Ont.

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ANDRÉ ANDERSON, Vice-President (Individual Insurance)
D. A. MacINTOSH, Vice-President (Finance) and Treasurer
D. A. POST, F.L.M.I., Vice-President (Group Insurance)
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D. E. WEAVER, F.L.M.I., Secretary

The Mutual Life Assurance Company of Canada

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