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Dominion Life

THE DOMINION LIFE ASSURANCE COMPANY

ANNUAL REPORT 1981

Board of Directors

Our marketing theme for 1982, "Reach for the Future," is most appropriate for a company that saw its assets reach the one billion dollar milestone in 1981.

And we're not resting on our laurels. Continuous new developments in products and services are keeping us very competitive in an ever changing market.

Nineteen eighty-one was the year of the "wraparound IAAC," and we were the first life insurance company into this specialized market, writing $52 million of business. As well, we were among the leaders in introducing non smoker and preferred term rates. We replaced our very successful Money Multiplier Retirement Annuity with a new no-load, no-policy-fee Savings Multiplier and it has been very well accepted in the annuity market. Then, in October, we introduced the unique Universal Life plan. Universal Life combines the best features of permanent life insurance, term insurance and savings plans and is expected to be the first choice of buyers of permanent life insurance in the years to come. We take pride in being the first company to market this exceptional plan to the Canadian consumer.

Dominion Life markets life insurance, accident and sickness insurance and pensions, on an individual and group basis, through a highly professional sales force. A total staff of 930 at our Head Office in Waterloo and in our Field Offices, provides service to our 395,000 policyholders and certificateholders, and to our representatives in the field.

Founded in 1889, Dominion Life is the eleventh largest Canadian life insurance company, with sales offices in Canada, the United States and the Bahamas. Our growth during the past few years has been exceptional, directly related to our capacity to respond to clients' needs in these times of financial instability.

John S. Acheson
President, The Dominion Life Assurance Company

George H. Dobbie
Chairman
Glenelg Textiles Limited

Walter G. Gadient
Executive Vice President
Lincoln National Corporation

Mervyn L. Lahn*
President & Chief Executive Officer
Canada Trust

Dawn R. McKeag*
President
Walford Investments

Frederick H. McNeil*
Director
Bank of Montreal

R. Ross Munro*

Kenneth G. Murray
President
J.M. Schneider Inc.

Jean P. W. Ostiguy
Chairman of the Board
Greenshields Inc.

Sidney A. Reeves
Chairman of the Board
Maritime Builders Limited

Kenneth Rotenberg*
Vice Chairman & Chief Executive Officer, Rostland Corporation

C. David Silletto
President
The Lincoln National Life Insurance Company

*policyholders' director

Annual Report Highlights

For the Year Ended December 31, 1981

	1981	1980	% Increase
Premium Income	$ 277,673,000	$ 184,187,000	50.8
Investment Income	103,522,000	80,790,000	28.1
Business in Force—Life and Annuities	7,039,638,000	6,229,317,000	13.0
Total Assets	1,082,103,000	916,083,000	18.1
Benefits Paid and Amounts Invested for Policyholders	319,458,000	217,750,000	46.7
Capital and Surplus	140,588,000	128,486,000	9.4

On the cover...

Once, it was a commercial gravel pit. Later, it became a favourite swimming hole for local children and at one time it was a fish farm. Intrigued by the inherent beauty of the property, its accessibility and situation in the heart of the expanding city of Waterloo, Dominion Life bought the site in 1974.

Development is still in progress, but already there are a multi-tenant office building that houses the Company's Group Division (except Pensions) and local sales offices, three 22-unit residential buildings, a large recreation centre and a fine restaurant, all set against a background of natural woodland and overlooking spring-fed ponds.

Water makes the property unusually appealing. When the site was acquired, a biologist was asked to assess water flow and quality. He found a tiny spring-fed pond in one corner of the property that was the typical turquoise colour of cold groundwater rising from the limestone bedrock. Catching two tiny brook trout, elderly survivors of the fish farm, further convinced him the water was viable.

Detailed ecological studies followed and a new environment was created from scratch. A series of interconnecting ponds, fed by the spring, was formed. Surface water flows from one to the next, warming as it goes, so each pond has its unique temperature and character.

Water plants, plankton and small fish were introduced, and with the establishment of animals at the lower end of the food chain, other forms of life started to take hold. Mayflies, typical indicator of good water quality, appeared. A pair of green herons arrived and found the fishing good. A great blue heron came to hunt. The system was developing. Recently, the connections between the ponds were made shallow and lined with gravel to create "bubbling brooks" that will further oxygenate the water. Rocks along the water's edge add aesthetics above and cover for small creatures below.

A whole new complex biological system has been created, and life is diverse. Last summer, a beaver arrived and dammed the water outlet in two days—it had to be politely removed. There are hawks, coots, ducks, warblers in the willows, groundhogs and muskrats along the banks. Some of the fingerling trout added last year will reach 14" this year, and eventually there will be rainbow and brook trout, large mouth bass, sunfish, each in its own pond, its own special habitat.

What was once an abandoned gravel pit has been transformed into "Willowells," a beautiful oasis in the midst of the city.

The Directors' 93rd Annual Report

Dominion Life experienced a year of outstanding growth and success in 1981. A major milestone was reached and passed: the realization of a billion dollars in assets. Of even greater significance is the fact that during a year of generally widespread economic malaise, premium income increased by better than 50%. We attribute much of this substantial increase to the introduction during the year of a number of highly innovative products particularly responsive to current consumer needs.

New Business

Sales of Individual annuities were exceptionally strong during the year, amounting to $133.4 million, fully 90% greater than production during 1980. Included in this sales figure is $52 million of "loan-back" income averaging annuity business, one of the unique products introduced early in the year.

Individual life insurance sales amounted to $4.4 million, down marginally from last year's production. However, the recorded sales figure by no means tells the whole story on Individual life marketing activity in 1981. Late in the year, the Company introduced "Universal Life", probably the most revolutionary and consumer oriented contract developed within the life insurance industry in the past 100 years. We were the first Canadian company to offer this highly flexible, cost effective product. A good part of the last half of the year was spent developing the contract. A series of seminars was conducted in virtually every major centre across Canada, taking details of the product to our field force. The reaction from agents, brokers and the public has been very encouraging indeed and substantial sales are anticipated.

In the Group area, annuities were once again a highlight. Sales of $22.6 million represented an increase of 57% over the previous year. Sales were particularly strong in Canada where our new Group Retirement Investment Policy was well received in the marketplace. Combined sales of group life and accident and sickness insurance amount to $18.8 million, an increase of 27% over 1980 results. This increase occurred largely in the United States market, a market characterized in 1981 by considerable turbulence as both buyers and sellers of group accident and sickness insurance reacted to unprecedented increases in the cost of health care services.

Assets

As was the case in 1980 and 1979, assets increased by more than $100 million. The increase for 1981 was a record breaking $166 million to a total of $1,082 million.

Mortgage loans continued to be the largest single class of investment, increasing by $73.3 million to $487.5 million, about 46% of the total investment portfolio. Real estate investments, while constituting a much smaller segment of the portfolio, about 4%, increased by over $9 million to $43.2 million, reflecting the heightened activity of our expanded real estate department. Bonds and debentures increased by $18.7 million to $311.2 million, just under 30% of invested assets. A new category of asset, collateral loans, represents the loan-back portion of the high volume of income averaging annuity contracts processed this year. At year-end, the collateral loan balance stood at $46.8 million, about 4.5% of total invested assets.

Benefits to Policyholders and Beneficiaries

Benefits of $164 million were paid in 1981, an increase of 26% over the previous year. Mortality, for both Individual and Group life insurance, was slightly more favourable than expected as were claims under Group accident and sickness coverages.

Policy benefit liabilities increased by $158 million bringing the total amount provided to secure future payments under the Company's insurance and annuity contracts to $909.7 million.

Dividends to Policyholders

Policyholder dividends amounted to $7.3 million compared with $6.8 million for the previous year. A substantial increase in dividend scale for 1982 was announced, the fourth increase in as many years. This ensures the continuation of a competitive position in the participating life insurance market.

Income

Total income for the year 1981 rose to $382.1 million, an increase of 44% over the 1980 figure.

Life insurance premiums amounting to $52.4 million were up $3.2 million compared with 1980, while annuity considerations of $161.7 million increased by $76.7 million. Accident and sickness premiums for 1981 totalled $63.6 million for an increase of $13.6 million. Of the total insurance and annuity premiums, 65% arose from Individual policies and 35% from Group contracts.

Gross investment income of $103.5 million was up 28% over the previous year. This increase, which was considerably greater than expected, is a reflection of the substantial increase in premium income flowing to the Company and an impressive increase in net yield on the investment portfolio from 9.04% in 1980 to 10.09% in 1981.

Earnings

Net income for 1981 amounted to $13.6 million compared with $8.2 million for the previous year. A number of factors contributed to the improved results. A gratifying and substantial turnaround in accident and sickness results accounted for close to one half of the overall improvement. New income averaging annuity and special reinsurance contracts added materially to earnings. Another important factor was the increase in investment yield. Productivity improvement also played a role. While volume of business increased dramatically during the year, operating expenses were kept under very tight control. This significantly contributed to the favourable earnings figure.

Net income attributable to shareholders in 1981 was just over $10 million, equivalent to $10.08 per share. This compared with $5.12 per share for 1980. Shareholder dividends paid in 1981 were $1.80 per share compared with $1.60 the previous year.

Capital and Surplus Funds
At year end, capital and surplus funds amounted to $140.6 million, an increase of $12.1 million over the previous year. The ratio of surplus to total assets is 13%, reflecting the very solid financial strength of Dominion Life.

Outlook for 1982
Prior to the Federal Budget presentation on November 12, 1981, the overall outlook at Dominion Life was one of unbridled enthusiasm, eagerness to push ahead and high expectations for the future. Our standing in the annuity market has been that of a leader for some years and never more so than in 1981. While not complacent, we were convinced that successes of prior years could be repeated. Regarding life insurance, the enthusiastic response from our sales force and the general public to our announcement of Universal Life gave ample evidence that the product could serve as a springboard to a substantially increased penetration of the life market. Needless to say, the ill-conceived Federal Budget upset many of our marketing forecasts and financial plans. However, we are not abandoning hope that many of the more inequitable proposals will be rolled back before passage of the budget bill through Parliament. In the meantime, we are confident that we will remain in the vanguard regarding development and delivery to the public of innovative insurance and annuity products.

One of the major Individual marketing strategies in 1982 will be an analysis of all existing product lines and development of new contracts in keeping with revised tax legislation. Promotion of all types of annuities will be aggressively pursued. New term life insurance policies are already on the drawing-board. Also of priority will be the development of comprehensive, yet easily understood status reports for the benefit of policyholders.

Group marketing strategy will include the enhancement of systems and procedures which are essential for administration of larger group cases. In this regard, a comprehensive automated accident and sickness claims processing system will go on-stream during the course of 1982. In the Group pension area, a deeper penetration of the market will be sought, a continuation of the programme begun in 1980 which produced such very successful sales results to date. The intent is to build a sales force of specialists to market the new portfolio of pension products now available.

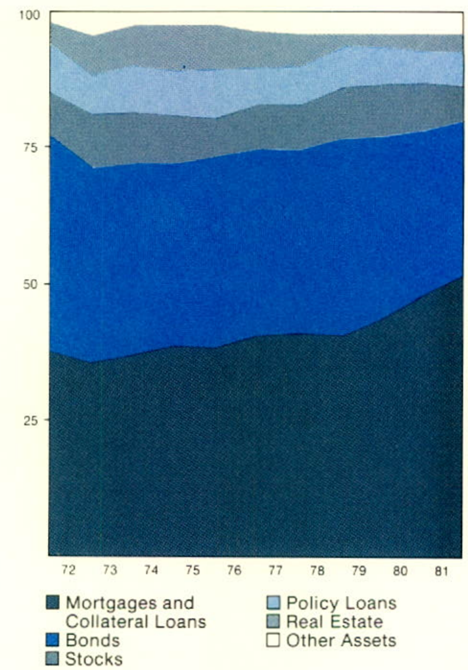
During the year, the project of linking Individual and Group field offices to Head Office via an on-line computer network was completed. The facility provides not only a communications medium, but ability to produce proposals, contract illustrations and policy information to the field offices within seconds of enquiry time. The system truly represents state of the art technology. During 1982, ways and means of exploiting to the fullest this highly flexible and valuable management and administrative tool will be examined.

On the subject of general expenses and productivity improvement, recent analyses have indicated that the Company's expenses have been controlled better than most in the industry. We will continue to seek productivity improvements through increased efficiency.

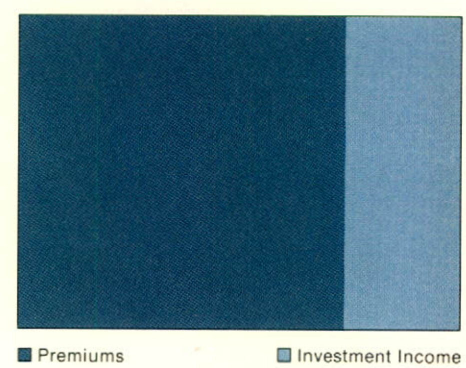
Appreciation
The excellent year Dominion Life experienced in 1981 was possible only through the application of a great deal of skill and effort by all employees and agents of the Company. On behalf of the Board of Directors, I extend sincere appreciation for exceptional performance.

John Acheson
J. S. Acheson, President
Waterloo, Ontario, March 5, 1982

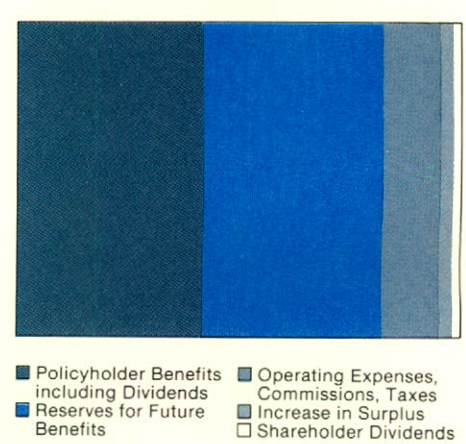
PERCENTAGE COMPOSITION OF INVESTED ASSETS



SOURCES OF INCOME



DISPOSITION OF INCOME



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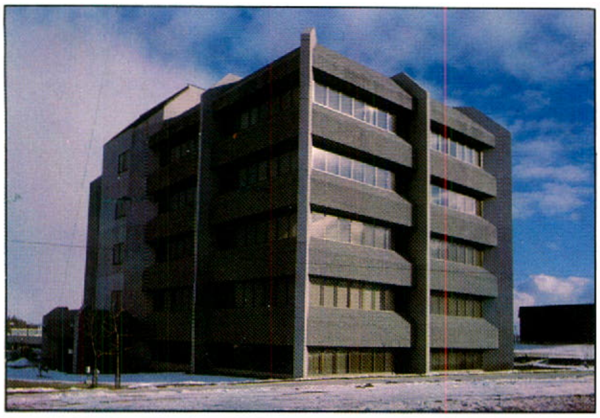

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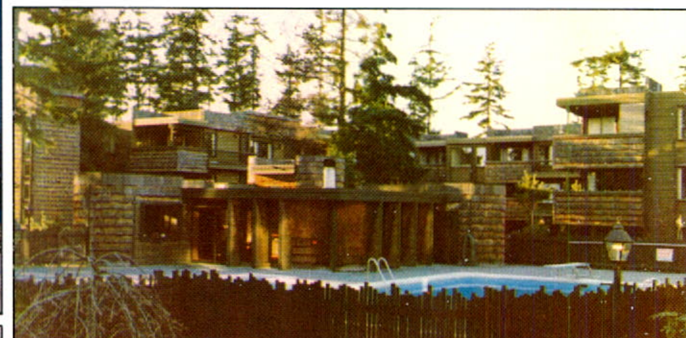

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Real Estate Investments

On these pages are a few of the many and varied properties that make up Dominion Life's mortgage and real estate portfolios. The Company has property investments in all the Provinces of Canada, the Bahamas and the States of Washington, Michigan, Ohio, Illinois and, in the "sun belt," Texas and Florida. When Dominion Life first became involved in real estate acquisitions in the late '40s and '50s, concentration was on supermarkets, office buildings and warehouse properties leased to national corporations, frequently to major retailers. Since then, the portfolio has become much more diversified and the ownership interests now range from shopping centres to apartment buildings, from light industrial to condominium developments, from mini-warehouses to office complexes.

Mortgages and real estate are an increasingly significant part of our investment strategy because of the rapid growth of our annuity business. Paramount considerations in choosing a property for investment are desirability of location, quality of construction and market acceptance. It is equally important that investments match annuity liabilities both as to term and rate of interest.

The rate of growth of the portfolio has accelerated considerably in recent years, as have the size and scope of individual investment properties. Only a few years ago, $200,000 was considered a sizable investment for Dominion Life. Now substantially larger investments are made in such joint ventures as Cambridge Place, a $10 million retail and office complex in Cambridge, Ontario, and a development in Waterloo, Ontario, the $12 million first stage of which includes an office building, restaurant and recreation centre as well as the beautiful Willowells condominiums shown on the cover of this report.

In November, 1969 a wholly-owned subsidiary, Domlife Realty Limited, was formed to hold and manage properties developed as joint ventures with other investors and major construction companies. Dominion Life also manages the Canadian mortgage investments of Lincoln National Life and the real estate investments made through Lincoln National Corporation's subsidiary, Dombur Investments Limited. Over $15 million of mortgages are also serviced for a number of corporations including other insurance companies, banks and trust companies.

1. Kingswood Business Centre, Waterloo, Ontario.
2. Head office, Budget Rent-a-Car, Orlando, Florida.
3. Knotty Pine Restaurant, Waterloo, Ontario.
4. Retail and office complex, Cambridge, Ontario.
5. Richview Baptist Church senior citizen housing, Toronto.
6. Recreation centre, Willowells, Waterloo, Ontario.
7. Apartment complex, Seattle, Washington.
8. Apartment building, Waterloo, Ontario.
9. Professional office building, Columbus, Ohio.
10. Head office, Carma Investments Ltd., Calgary, Alberta.
11. Apartment complex, Seattle, Washington.
12. Commerce Centre, Pointe-Claire, Quebec.
13. Professional condominium office building, Vancouver, B.C.
14. Office, hotel and retail complex, Edmunston, New Brunswick.


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Consolidated Balance Sheet, December 31, 1981

ASSETS	1981	1980
Invested Assets		
Bonds and debentures	$ 311,202,663	$292,518,878
Stocks	73,570,107	78,321,501
Mortgage loans	487,534,223	414,201,191
Real Estate	43,216,871	33,901,766
Policy loans	56,104,604	48,748,172
Collateral loans (note B)	46,773,946	—
Cash and short term investments	10,303,685	4,523,436
Segregated funds	20,192,095	22,172,521
Total invested assets	1,048,898,194	894,387,465
Other Assets		
Interest due and accrued	22,170,494	14,639,640
Net premiums outstanding	5,620,473	4,472,710
Income and premium taxes recoverable	—	30,337
Other	5,414,105	2,552,706
Total other assets	33,205,072	21,695,393
Total assets	$1,082,103,266	$916,082,858

See Notes to the Consolidated Financial Statements, pages 10 and 11.

REPORT OF THE AUDITORS

TO THE SHAREHOLDERS AND POLICYHOLDERS,
THE DOMINION LIFE ASSURANCE COMPANY

We have examined the Consolidated Balance Sheet of The Dominion Life Assurance Company as at December 31, 1981 and the related Consolidated Statement of Income, Capital and Surplus, and Analysis of Consolidated Capital and Surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances; we have relied on the report of the Company's Valuation Actuary as to the valuation of the Policy Benefit Liabilities.

In our opinion, based on our examination and the report of the Valuation Actuary, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1981 and the results of its operations and the changes in its capital and surplus for the year then ended in accordance with the accounting policies described in Note A to the consolidated financial statements, which are generally as prescribed by the Department of Insurance of Canada and applied on a basis consistent with that of the preceding year.

Kitchener, Ontario
January 22, 1982

Ernst & Whinney
Chartered Accountants

LIABILITIES, CAPITAL and SURPLUS

	1981	1980
Policy Benefit Liabilities		
Actuarial liabilities	$ 819,541,672	$664,709,259
Unpaid and unreported claims	23,751,463	18,023,681
Policy proceeds, dividends and other amounts left on deposit	37,777,492	38,921,539
Provision for policyholder dividends	8,393,587	7,686,955
Segregated funds	20,192,095	22,172,521
Total policy benefit liabilities	909,656,309	751,513,955
Other Liabilities		
Income and premium taxes	2,337,146	—
Unallocated receipts	24,114,094	15,663,054
Other	5,407,243	20,419,662
Total other liabilities	31,858,483	36,082,716
Capital and Surplus		
Participating fund		
Appropriated surplus	9,030,400	8,904,406
Unappropriated surplus	47,314,223	44,230,103
Total participating fund	56,344,623	53,134,509
Non-participating fund and Other		
Capital stock-authorized and issued 1,000 shares	1,000,000	1,000,000
Shareholders' fund	1,254,264	1,316,408
Appropriated surplus	29,177,814	25,296,433
Unappropriated surplus	52,811,773	47,738,837
Total non-participating fund and other	84,243,851	75,351,678
Total capital and surplus	140,588,474	128,486,187
Total liabilities, capital and surplus	$1,082,103,266	$916,082,858

REPORT OF THE VALUATION ACTUARY

I have made the valuation of Policy Benefit Liabilities of The Dominion Life Assurance Company for its balance sheet at December 31, 1981 and its income statement for the year then ended. In my opinion (i) the amount of the Policy Benefit Liabilities makes proper provision for the future payments under the company's policies, (ii) a proper charge on the account of those liabilities has been made in the income statement, and (iii) proper provision has been made for guaranteed Cash Surrender Values.

D. Eckersley

Waterloo, Ontario
January 22, 1982

Vice-President and Actuary

Consolidated Statement of Income, Capital and Surplus

INCOME

Revenue	1981	1980
Premiums	$277,673,358	$184,187,416
Investment income and currency exchange	103,522,425	80,789,742
Net income from special reinsurance agreement (note C)	893,326	—
Total income	382,089,109	264,977,158
Benefits—Policyholders and Beneficiaries		
Death claims	20,053,253	19,761,311
Maturity and surrender values	43,234,798	28,444,794
Annuity payments	33,332,274	23,868,979
Accident and sickness and disability benefits	57,049,425	48,344,287
Increase in actuarial liabilities	155,444,865	87,691,118
Dividends to policyholders	7,264,362	6,784,611
Interest paid	3,079,394	2,854,949
Total benefits	319,458,371	217,750,049
Expenses		
Commissions	12,808,265	10,556,892
Operating expenses	26,421,394	22,422,665
Investment expenses, taxes and depreciation	7,541,530	6,859,168
Premium taxes, licences and fees	2,501,418	2,131,309
Total expenses	49,272,607	41,970,034
Total benefits and expenses	368,730,978	259,720,083
Operating income	13,358,131	5,257,075
Income taxes	328,965	(160,375)
Net operating income	13,029,166	5,417,450
Real estate and other capital gains	595,751	2,757,775
Net income	$ 13,624,917	$ 8,175,225

CAPITAL AND SURPLUS

Balance beginning of year as previously reported	$128,486,187	$116,208,675
Add adjustment arising from change in basis of accounting	—	4,948,901
Balance beginning of year as restated	128,486,187	121,157,576
Net income	13,624,917	8,175,225
Adjustment in prior years' income taxes (note D)	277,370	781,988
Adjustment for foreign business	—	(28,602)
Dividends to shareholders	(1,800,000)	(1,600,000)
Total capital and surplus end of year	$140,588,474	$128,486,187

See Notes to the Consolidated Financial Statements, pages 10 and 11.

Analysis of Consolidated Capital and Surplus

Participating Fund	1981	1980
Balance beginning of year as previously reported	$ 53,134,509	$ 49,168,062
Add adjustment arising from change in basis of accounting	—	178,185
Balance beginning of year as restated	53,134,509	49,346,247
Net income	4,137,572	3,605,966
Adjustment for foreign business	—	(23,266)
Adjustment in prior years' income taxes	(338,456)	755,666
Transfer to shareholders' fund	(589,002)	(550,104)
Balance end of year	56,344,623	53,134,509
Non-Participating Fund and Other		
Balance beginning of year as previously reported	75,351,678	67,040,613
Add adjustment arising from change in basis of accounting	—	4,770,716
Balance beginning of year as restated	75,351,678	71,811,329
Net income	9,487,345	4,569,259
Adjustment for foreign business	—	(5,336)
Adjustment in prior years' income taxes	615,826	26,322
Transfer from participating fund	589,002	550,104
Dividends to shareholders	(1,800,000)	(1,600,000)
Balance end of year	84,243,851	75,351,678
Total Capital and Surplus	$140,588,474	$128,486,187

COMPONENTS OF APPROPRIATED SURPLUS

Participating Fund	1981	1980
Investment valuation and currency reserve	$ 5,443,409	$ 3,435,855
Other mandatory reserves	388,343	293,825
Reserve for foreign statutory requirements	1,198,648	1,174,726
Additional investment valuation reserve	2,000,000	4,000,000
	$ 9,030,400	$ 8,904,406
Non-Participating Fund and Other		
Investment valuation and currency reserve	$ 16,378,883	$ 7,494,931
Other mandatory reserves	933,367	636,322
Reserve for foreign statutory requirements	7,713,421	6,021,542
Reserve for cash values	4,152,143	4,393,638
Additional investment valuation reserve	—	6,750,000
	$ 29,177,814	$ 25,296,433

Notes to the Consolidated Financial Statements

A. Summary of Significant Accounting Policies

The accompanying consolidated financial statements have been prepared using accounting policies prescribed or permitted by the Superintendent of Insurance of Canada. A summary of the significant policies is set out below.

Basis of consolidation
The consolidated financial statements combine the life and accident and sickness insurance operations of the Company and the operations of its subsidiaries, Domlife Realty Limited and Domfusco Limited. All material intercompany amounts have been eliminated.

Foreign currency
Assets and liabilities held in foreign currencies have been included in the consolidated balance sheet at par. Provision has been made in the financial statements, by means of an investment valuation and currency reserve held within the appropriated surplus account, for the change arising from conversion of assets and liabilities at current rates of exchange.

Asset valuation
Bonds and debentures in the life account are carried at amortized cost with an adjustment for the unamortized balance of gains and losses on sale. Differences between proceeds on disposal of securities and their amortized costs are taken into income on a straightline basis from the year of disposal to the year of maturity subject to a maximum of 20 years. The balance of unamortized loss added to bond values as at December 31, 1981 amounted to $8,861,153. Bonds and debentures in the accident and sickness account are also carried at amortized cost, however, gains or losses on sale are recognized as realized.

Stocks are carried at cost with a formula adjustment for realized and unrealized gains and losses which will be taken into income in future years. The formula adjustment gain deducted from stock values as at December 31, 1981 amounted to $5,059,619.

Mortgage loans are carried at amortized values with an adjustment for the unamortized balance of gains and losses on sales of mortgages. At December 31, 1981, the unamortized balance was nil.

Real estate held for investment is carried at cost of $69,674,124 less encumbrances of $19,632,326 and accumulated depreciation of $6,824,927. Depreciation on real estate held for investment is provided on the sinking fund basis.

Furniture and equipment included as other assets on the balance sheet are carried at cost less accumulated depreciation. An amount of $910,733 equal to the carrying value of furniture and equipment has been appropriated from surplus.

Segregated funds' investments are carried at market value.

Actuarial liabilities
Actuarial liabilities represent the amount required, together with future premiums and interest, to provide for future benefits on insurance and annuity contracts. Actuarial liabilities are calculated using assumptions and bases appropriate to the circumstances of the Company. An amount of $12,634,499 in respect of deferred acquisition costs has been deducted in arriving at the net actuarial liability figure. Total actuarial liabilities exceed the minimum required by statute by $8,797,553.

Income taxes
Provision is made in the consolidated statement of income for all taxes in respect of current year's income. In addition, provision is made for the deferred tax liability of the subsidiaries arising from the taxation effect of timing differences between accounting income and taxable income. The latter provision is in accordance with generally accepted accounting principles appropriate to subsidiary companies.

Appropriated surplus
An appropriation of surplus has been made to cover the mandatory requirement for reserves related to investment and currency valuation, reinsurance ceded to unregistered companies, foreign statutory requirements, cash values and miscellaneous assets. Additional appropriations have been made to provide for possible future adverse deviation.

Shareholders' earnings
Income applicable to shareholders includes investment income on the shareholders' fund, the net earnings of the non-participating and accident and sickness funds and the amount transferred from the participating fund.

B. Collateral Loans

Collateral loans totalling $46,773,946 as at December 31, 1981 relate to loans associated with income averaging annuity contracts issued in 1981. The loans are fully secured and will be repaid through the assignment of future annuity payments.

C. Net Income from Special Reinsurance Agreement

During the year an agreement was reached with a major life insurance company whereby reinsurance of a defined block of in-force policies was assumed by the Company. For reporting purposes, all expenses associated with the block of business such as benefits and administrative charges were netted against revenues. Net income derived in 1981 from this source amounted to $893,326 as shown in the Consolidated Statement of Income, Capital and Surplus. The agreement may be terminated by the ceding company upon 30 days notice.

D. Adjustment in Prior Years' Income Taxes

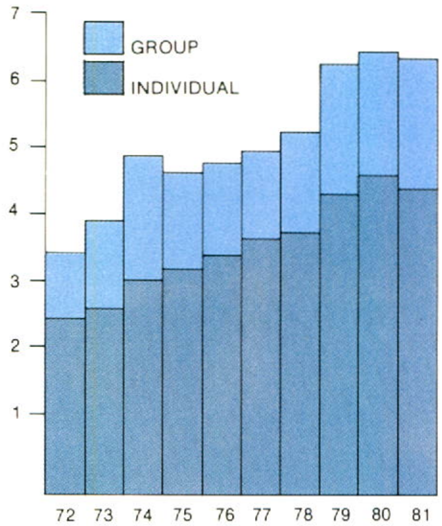
A reassessment of taxable income for prior years resulted in a net recovery of taxes paid in the amount of $406,970. Additionally, an amount of $129,600 was paid in 1981 in connection with the reversal of certain group accident and sickness reserves formerly allowed as a deduction from taxable income. Following the Company's normal accounting practice regarding prior year income tax adjustments, the net of the above amounts, $277,370, has been reflected in 1981 financial statements as a surplus adjustment. The allocation of the adjustment to participating and non-participating funds was made on an equitable basis reflecting prior income tax charges to those funds.

E. Change in Presentation

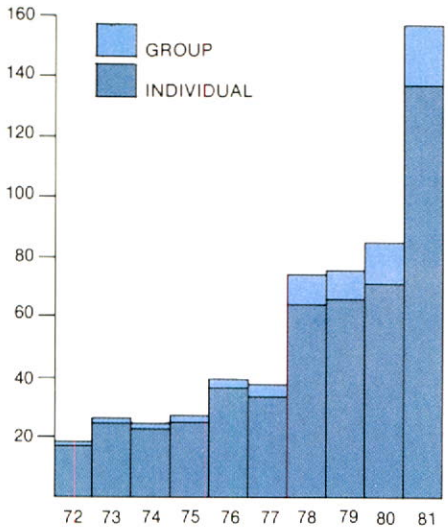
Certain balance sheet amounts shown for 1980 have been reclassified to conform to the presentation used in 1981.

10 Years of Progress
(thousands of dollars)

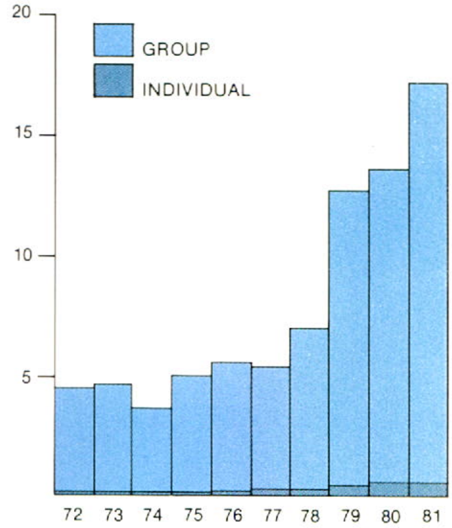
LIFE INSURANCE SALES
($ Millions)



ANNUITY SALES
($ Millions)



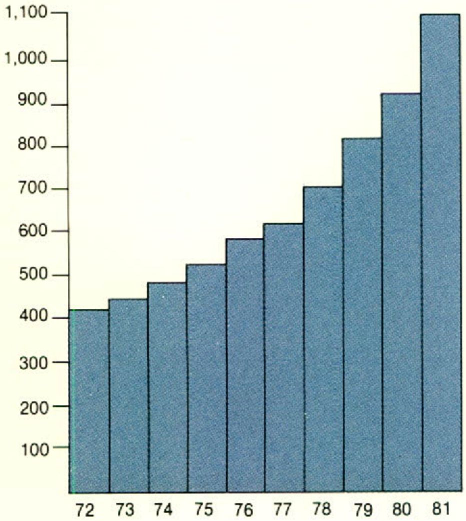
ACCIDENT & SICKNESS SALES
($ Millions)



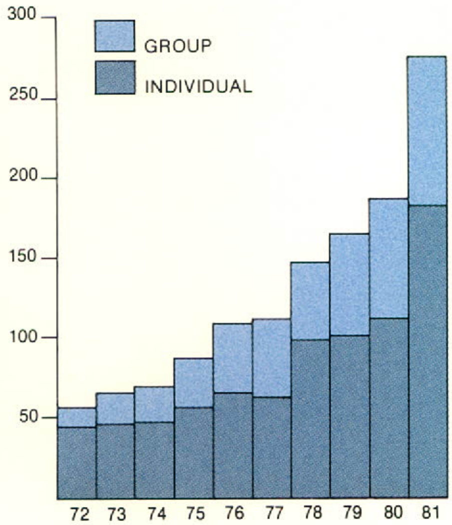
	1981	1980	1979
TOTAL INCOME	$ 382,089	$ 264,977	$ 230,274
PREMIUMS			
Individual: Life	37,540	35,565	33,961
Annuities	142,990	70,940	65,777
Accident and Sickness	852	734	648
Group: Life	14,863	13,678	12,399
Annuities	18,680	14,030	10,316
Accident and Sickness	62,748	49,240	40,103
INVESTMENT INCOME	103,522	80,790	67,070
BENEFITS	319,458	217,750	184,099
OPERATING INCOME (before income taxes)	13,358	5,257	10,915
NET INCOME	13,625	8,175	10,146
CAPITAL AND SURPLUS FUNDS	140,588	128,486	121,158
TOTAL ASSETS	1,082,103	916,083	804,666
BUSINESS IN FORCE	7,039,638	6,229,317	5,336,528
PER SHARE DATA (in dollars)			
Earnings	10.08	5.12	7.05
Dividends	1.80	1.60	1.16

NOTE: Amounts shown for prior years have been restated where necessary to conform to the presentation used in 1981.

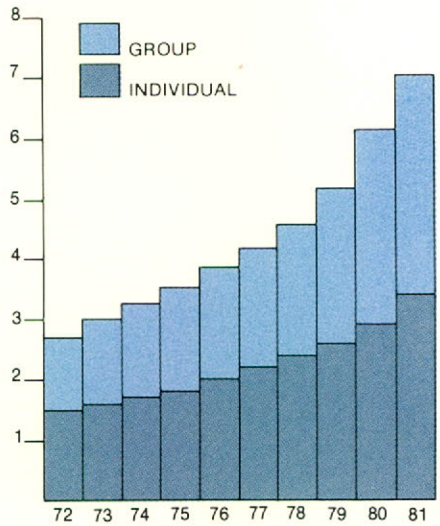
ASSETS
($ Millions)



PREMIUMS
($ Millions)



BUSINESS IN FORCE
($ Billions)



1978	1977	1976	1975	1974	1973	1972
$ 202,419	$ 156,760	$ 147,074	$ 124,016	$ 103,980	$ 95,869	$ 84,797
31,099	31,805	30,002	28,244	27,513	27,032	26,258
64,493	31,656	36,127	26,472	13,788	14,062	13,281
551	446	346	290	270	259	262
10,816	10,350	9,604	8,797	8,943	7,227	6,280
7,805	6,828	5,908	4,223	3,266	3,078	2,422
31,164	26,519	22,462	19,139	16,534	14,492	9,673
56,491	49,156	42,625	36,851	33,666	29,719	26,621
162,121	119,862	114,028	97,581	78,461	73,996	65,397
9,823	8,494	8,551	4,814	6,683	4,768	4,916
7,404	6,245	5,697	3,315	4,065	2,678	2,843
106,857	70,491	65,350	61,483	57,091	52,825	50,057
695,482	620,361	560,058	504,505	466,366	436,986	409,332
4,654,633	4,378,011	4,065,202	3,689,210	3,387,569	3,082,778	2,738,078
4.31	4.11	3.96	1.54	2.24	1.71	1.83
.95	.88	.82	.80	.72	.64	.56

Company Officers

JOHN S. ACHESON, FSA, FCIA
President

INDIVIDUAL MARKETING

GORDON A. COYNE, FLMI	Vice-President, Individual Marketing
ROY S. McALLISTER	Field Office Administration Officer
RONALD E. RIDGWAY, FLMI	Individual Sales Administration Officer
DAVID R. WILSON, FLMI	Individual Marketing Services Officer
LLOYD D. HOULE	Individual Sales Executive
JOHN NICHOLSON, CLU, FLMI	Superintendent, Individual Sales
W. EDWARD WAKELING, CLU, FLMI	Superintendent, Individual Sales
MERVYN J. MORGANS, CLU	Individual Sales Executive
DONOVAN F. ROBERTS	Individual Sales Officer
JOHN E. WRIGHT	Field Training Officer
WALTER G. SMYTHE, CLU	Superintendent, Individual Sales

W. JAMES SAUNDERS, FSA, FCIA	Vice-President, Individual Operations
L. GEORGE BRENNAN, FLMI	Individual Underwriting Officer
NORMAN W. McQUAY, MD, FRCP(C)	Medical Director

GROUP MARKETING

DAVID M. HORMAN, FSA, FCIA	Vice-President, Group Marketing
JOHN J. BROPHY, FSA, FCIA	Group Underwriting Officer
GORDON J. FERGUSON, CLU	Superintendent, Group Sales
EARLE A. TEBBUTT	Group Sales Officer
DOUGLAS O. JANKE	Superintendent, Group Operations
WILLIAM D. BARNES, FLMI	Group Administration Officer
LANNY R. McNEILLY	Health Claims Officer
W. BRYCE WALKER, FSA, FCIA	Superintendent, Pensions
ANTON J. WEISS	Pensions Officer
RODNEY C. WILTON, FSA, FCIA	Group Actuary

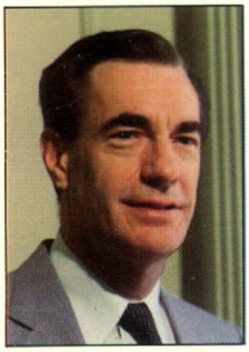
INVESTMENTS

JOHN W. MAHN, AACI	Vice-President & Treasurer
DAVID G. LACEY, FLMI	Investment Officer, Fixed Income Securities
R. WILLIAM LAVIGNE, CA	Investment Officer, Real Estate Holdings
BRYAN D. McLELLAN, CA	Investment Officer, Real Estate Development
KENNETH E. RAE, CFA, FLMI	Investment Officer, Equities and Pensions
CEDRIC J. WATKISS, ARICS	Mortgage Executive
JOHN H. van DONGEN	Investment Officer, Mortgages

FINANCE

DEREK ECKERSLEY, FSA, FCIA .... Vice-President & Actuary

JARED P. McCLELLAND, FSA, FCIA ..... Product Development Officer
G. RANDAL PHILLIPS, FSA, FCIA .... Product Development Officer
STEVEN F. MARTINEAU, FSA, FCIA .... Superintendent, Taxation
MARGARET A. REYNOLDS, FSA, FCIA .... Superintendent, Corporate Actuarial
GORDON D. RICE, FSA, FCIA .... Corporate Actuarial Officer



PETER G. DOOLEY, CA .... Vice-President & Comptroller

WILLIAM R. JESSOP, CA .... Accounting Officer

CORPORATE SERVICES

GRAHAM D. BAKER, FLMI .... Corporate Services Executive & Secretary

ANN C. MARSHALL .... Computer Services Officer
KENNETH A. C. SCOTT .... Advertising & Field Services Officer
W. DAVID OILLE, AEP .... Superintendent, Personnel
JAMES H. SOLTYSIAK, FLMI .... Superintendent, General Services
ALBERT F. HILLIER, CDP, FLMI .... Superintendent, Information Systems Planning
GARRY W. COLLINS, FLMI .... Systems Development Officer

LEGAL

H. BRIAN EDWARDS, QC .... General Counsel

Field Offices

Individual Sales Offices

CANADA

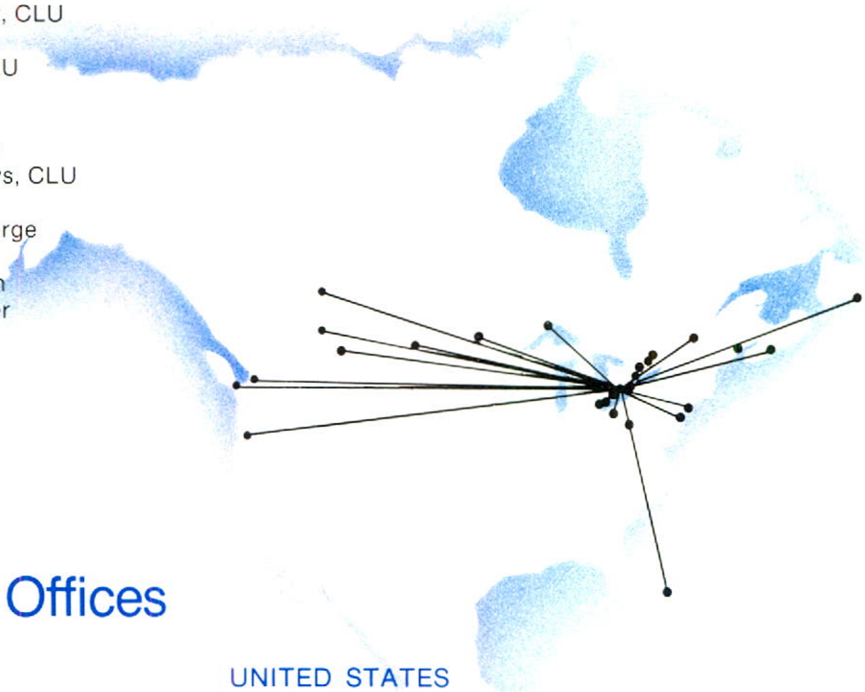
Barrie, Ont.	Thomas R. Kennett
Calgary, Alta.	Kenneth G. Maerz
Cambridge, Ont.	
Edmonton, Alta.	Kenneth H. Slobod, CLU
Halifax, N.S.	David J. Platt
Hamilton, Ont.	Thomas F. Calhoun
Hull, P.Q.	
Kitchener, Ont.	Paul A. Paleczny, CLU
Lethbridge, Alta.	Robert T. Lien
London, Ont.	Lorne T. McBride, CLU
Montreal, P.Q.	Mac Boulos
Montreal, P.Q.	Walter Ronish
Montreal, P.Q.	Roy Yentin, CLU
Ottawa, Ont.	William D. Whiteside
Peterborough, Ont.	Jack E. Connolly, CLU
Regina, Sask.	Evert J. v. Aanhout, CLU
Saint John, N.B.	G. Peter Heffernan
St. John's, Nfld.	Ross Churchill, CLU
Thunder Bay, Ont.	Richard D. Wright
Toronto, Ont.	Irving Drutz, CLU
Toronto, Ont.	Ray J. C. Hodgson
Toronto, Ont.	Michael Humphreys, CLU
Toronto, Ont.	Raj Rajpal
Vancouver, B.C.	Raymond J. Theberge
Victoria, B.C.	C. William Capier
Waterloo, Ont.	William B. Frankish
Windsor, Ont.	William R. Thrasher
Winnipeg, Man.	Adrian W. Boyko

UNITED STATES

Cherry Hill, N.J.	William H. Strecker, CLU
Cleveland, Oh.	James F. Wise, CLU
Detroit, Mi.	Richard H. Love, CLU
Detroit, Mi.	John C. Prost, CLU
Philadelphia, Pa.	John A. DiBabbo
Pittsburgh, Pa.	H. Wallace Snyder
Seattle, Wa.	Bruce A. Mulvey

BAHAMAS

Nassau, Bahamas	Edwin L. V. Deal



Regional Group Sales Offices

CANADA

Calgary, Alta.	Jerry P. Quinn
Edmonton, Alta.	Ray G. Wold
Halifax, N.S.	J. Richard Butler
Montreal, P.Q.	Ronald Devito, CLU
Toronto, Ont.	J. David Garner
Toronto, Ont.	Richard J. Skehan
Vancouver, B.C.	Harold Freeman, FLMI
Waterloo, Ont.	Michael A. Reuter
Waterloo, Ont.	Harry J. Voll
Windsor, Ont.	Denis G. Ullyett

UNITED STATES

Cleveland, Oh.	George J. Carter
Detroit, Mi.	Mark K. Erickson
Philadelphia, Pa.	Jerry D. Adair
Pittsburgh, Pa.	Irvin H. Patton
Roseland, N.J.	

General Agencies

CANADA

Chatham, Ont. ....The Insurance Exchange, Insurance Agencies Ltd.
Hull, P.Q. ....Allaire, Durand & Associes Inc.
Kitchener, Ont. ....Lackner, McPhail, St. Hill Insurance Agencies Ltd.
Montreal, P.Q. ....Bernstein & Bernstein Ltd.
Montreal, P.Q. ....Dubreuil-Lefebvre-Roy Inc.
Montreal, P.Q. ....Estate & Benefit Co-Ordinators Ltd.
Quebec, P.Q. ....Assurances Matte & Hains Inc.
Rimouski, P.Q. ....Serge Alary & Associes Inc.
St. Catharines, Ont. ....Ball Harrison Employee Benefits Insurance Agency
Toronto, Ont. ....Thorpe, Adams Insurance Agency Ltd.
Vancouver, B.C. ....Shoreline Pacific Life Insurance Consultants Ltd.

UNITED STATES

Allentown, Pa. ....Barber & Company, Inc.
Cincinnati, Oh. ....Charles W. Rodenberg
Detroit, Mi. ....The Commonwealth Underwriting Group, Inc.
Grand Rapids, Mi. ....Design Underwriting Inc.
Kent, Ct. ....Raynard & Peirce, Inc.
Lansing, Mi. ....James M. Lowder and Associates Inc.
Monroeville, Pa. ....H. Ostrow & Associates
New Haven, Ct. ....Peter G. Hill & Associates
Traverse City, Mi. ....Estate and Benefit Planners, Inc.
Union, N.J. ....Louis W. Conte Insurance Agency
West Orange, N.J. ....The Life Agency of N.J. Inc.

Regional Group Claims Offices

CANADA

Calgary, Alta. ....Nora D. Oxby

UNITED STATES

Cleveland, Oh. ....Gary E. Zaleski
Philadelphia, Pa. ....Lynn M. Lotter

Policyholder Service Offices

Montreal, P.Q. ....Maurice Archambault
Toronto, Ont. ....James E. Kennedy

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