



*Crown Life Insurance Company
Annual Report*

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The cover illustration is of Crown Life Place, Crown Life's new head office building in Regina, Saskatchewan, which will be ready for occupancy in August 1993. The nine-storey, stone-and-granite building is centrally located in Regina's downtown business core.

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The Annual and Special Meeting of Crown Life Insurance Company will be held at 10:00 a.m. on Wednesday, April 7, 1993 at the Hotel Saskatchewan, 2125 Victoria Avenue in Regina.

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



Corporate Profile

Founded in 1900, Crown Life Insurance Company is a leading international insurer committed to providing quality products and services.

QualityFirst 



The Company offers life insurance, health insurance and pension programs on a participating and non-participating basis to individuals and groups, and reinsurance services to other insurance companies.

Based in Regina, Saskatchewan, Crown Life maintains sales and service offices in Canada, the United States, the United Kingdom, the Atlantic and Caribbean Islands, Hong Kong and Macau.



Crown Life is proud to have been selected as Official Insurer to Canada's Olympic teams at the Olympic Winter and Summer Games in 1992. Crown Life has held this exclusive role since 1979, reflecting the Company's ongoing commitment to excellence and the support of fitness and amateur sport.

The major shareholders of Crown Life are Crownx Inc. of Markham, Ontario, with a 54 percent interest, and Haro Financial Corporation of Regina, with a 42 percent interest.

Chairman's Message

The past year was one of significant change and progress for Crown Life.

The Company proceeded with its plans, announced in 1991, to relocate its head office operations to Regina, Saskatchewan by the end of 1993. The relocation program has been greatly assisted by the quality work force and support services available in Regina, and the goodwill extended by Regina's many community sectors. By year end, approximately one-third of head office jobs were relocated to Regina.

**"THE PAST YEAR WAS ONE OF
SIGNIFICANT CHANGE AND
PROGRESS FOR CROWN LIFE."**

Crown Life is taking advantage of this transition period to implement significant changes in head office operations which will increase overall productivity. These changes, together with the lower cost environment in Regina, will strengthen the company's competitive position.

The enactment of financial reform legislation in June 1992 will lead to increased competition in the financial services industry. In this environment, Crown Life will concentrate on markets where it has a strong competitive position and which meet its criteria for acceptable risk. The Company continues to believe that this disciplined approach is the right strategy for the 1990s.

While the Company's total income before other items increased in 1992 over 1991, there was a loss in the shareholders' account after provisions for asset default costs, relocation and other expenses. The Company's results and future outlook are discussed in the President's Message and the Management Discussion and Analysis.

DIRECTORS

October 1992 marked the first meeting of the Crown Life Board of Directors in Regina. During the year, four new Directors were appointed: Frederick B. Ladly, President and Chief Executive Officer of Crownx Inc. and also of Extencicare Health Services Inc.; Roland J. Lutes, Senior Vice-President, Administration and Finance, of New Brunswick Power Corporation; Charles H. Knight, Chief Executive Officer and Chairman of the Regina-based Denro Group of Companies, a founding shareholder of Haro Financial Corporation; and Garde B. Gardom, Q.C., a former Attorney General and Government House Leader in British Columbia. On behalf of all Directors, I welcome these gentlemen who bring valuable experience and expertise to the Board.

Three directors left the Board during 1992. Peter C. Godsoe stepped down after eight years on the Board. Raymond Primeau retired after 20 years of service, and David Schiff resigned after 21 years. We are indebted to Messrs Godsoe, Primeau and Schiff for their valuable counsel over the years.

Nineteen ninety-two was an important year of transition for the Company. On behalf of the Board, I want to thank all Crown Life sales associates and employees for their strong support during the past 12 eventful months. As a result of the contributions of all employees, the relocation is progressing smoothly. Management is able to remain focused on the Company's business plan and longer-term strategy for the benefit of policyholders, shareholders and employees.



H. Michael Burns
Chairman

February 25, 1993

President's Message

Crown Life earnings continued to be affected by the recession and poor real estate markets in 1992. At the same time, the Company made substantial progress in areas key to its future growth and development.

REVIEW OF 1992 OPERATING RESULTS

Despite the effects of the recession, total income before other items increased to \$80.3 million from \$76.5 million in 1991. After other items and before payment of policyholder dividends, total income was \$4.3 million, compared with a loss of \$154.3 million in 1991.

Before other items, shareholders' income from operations was \$18.3 million, compared with \$34.3 million in 1991, while participating policyholders' income was \$62.0 million, compared with \$42.2 million a year ago.

After other items, a loss on the shareholders' account of \$44.1 million was recorded in 1992, compared with a loss of \$170.6 million in 1991 and participating policyholders' income before policyholders' dividends was \$48.4 million, compared with \$16.3 million in 1991. Dividends paid to policyholders totalled \$55.2 million, compared with \$53.3 million in the previous year.

The Company's 1991 results have been restated to reflect new generally accepted accounting principles adopted by the life insurance industry in 1992.

"EARNINGS CONTINUED TO BE AFFECTED BY THE RECESSION AND POOR REAL ESTATE MARKETS."

Shareholders' income reflects unfavourable mortality experience compared with favourable experience in 1991, recession-related claims experience in the Canadian group disability business, and reduced amortized gains from real estate, principally as a result of a decline in

Toronto property values. The increase in participating policyholders' income was attributable to favourable mortality experience on this block of business, and to expense reductions. Total income also reflects improved performance of the Company's U.K. subsidiary, Crown Financial Management Limited.

Other items in 1992 consisted of an increase in provisions for asset default costs of \$45.0 million, of which \$40.0 million was attributable to the shareholders' account, and for relocation and restructuring of \$31.0 million (shareholders' account - \$22.4 million).

Previously established asset default provisions remained more than adequate to cover costs expected to be incurred to the end of 1993. The additional provisions are to cover losses on mortgage loans and other invested assets that may be incurred some time after 1993. These provisions were taken following a careful review of the mortgage loan portfolio and other invested assets at year end. They take into account the real estate problems which are likely to result in subsequent years as leases mature and are renewed at lower market rates.

The increase in provisions for relocation and restructuring principally reflects the effect of the poor Toronto real estate market on the outlook for the Company's head office leases, some of which run to 1998, and provisions for restructuring the operations of Crown Financial Management. Earnings in 1993 and beyond will reflect the lower head office costs in Regina, and the more efficient operations at Crown Financial Management.

FINANCIAL POSITION

As at December 31, 1992, the Company had capital and surplus of \$407.4 million and an additional \$115.6 million in deferred gains realized on the sale of share and real estate investments. Capital and surplus together with those deferred gains represented 6.7 percent of liabilities. In addition, as at

President's Message

Financial Summary	1992	1991
	<i>(millions of dollars)</i>	
Operating Results		
Revenue	1,640	1,925
Income before other items		
Participating policyholders'	62	42
Shareholders'	18	34
	80	76
Income (loss) after other items		
Participating policyholders'	48	16
Shareholders'	(44)	(170)
	4	(154)
Dividends		
Participating policyholders'	55	53
Preferred shareholders'	10	14
Financial Position		
Assets		
General funds	8,338	8,263
Segregated funds	1,805	2,119
	10,143	10,382
Participating policyholders' account	38	44
Shareholders' equity	369	409
	407	453

December 31, 1992, the Company had provisions of \$153.2 million for asset default costs and \$105.3 million for relocation and restructuring.

The Company's cash position and high-quality bonds, together with other assets that can be liquidated within 45 business days, amounted to \$3.2 billion at the end of 1992. The Company's bond portfolio has increased from 34.2 percent of assets in 1989 to 39.4 percent in 1992. At the same time, mortgages as a percentage of assets have declined from a peak of 45.9 percent in 1989, to 38.6 percent in 1992.

RELOCATION

The overriding objective of the program to relocate head office operations to Regina has been to achieve a smooth transition while maintaining quality customer service. I am pleased to say that this objective is being achieved, thanks to an outstanding team effort in logistics, communications, recruiting and training.

During the second half of 1992, the Company transferred 375 positions, of which 185 were filled by relocating employees and 190 were filled by new employees from Saskatchewan. Another 340 positions will be relocated by June 1993, and the remaining positions will relocate following completion of the new head office building in August 1993.

Management is impressed with the skills and overall enthusiasm of the new employees, who have adjusted quickly and made a positive contribution to the new work environment, and with the

"RELOCATION HAS PRESENTED A UNIQUE OPPORTUNITY TO IMPROVE THE COMPANY'S COMPETITIVE POSITION."

commitment and initiative demonstrated by relocating Toronto employees. For those who cannot relocate, the Company is providing assistance to find new positions.

Relocation has presented a unique opportunity to make fundamental changes which will improve the Company's

competitive position in the 1990s and beyond. Through the introduction of streamlined work procedures, improved supervision and training programs, the Company is able to increase overall productivity and reduce the number of head office employees by approximately 20 percent.

1992 OPERATING DEVELOPMENTS

The Company made substantial progress in a number of areas during the past year.

The investment division designed and implemented a detailed information and classification system for the mortgage loan portfolio. This system has enabled the Company's asset management group to manage the mortgage portfolio more aggressively. Working closely with borrowers and real estate specialists, the Company is reducing its cost of non-performing mortgage loans.

Crown Financial Management had a successful year in 1992. The company achieved an operating profit, following several years of losses which adversely affected past years' consolidated results. Administrative and financial turnaround programs started in prior years were completed, providing administrative efficiency and bringing costs in line with revenues. Crown Financial Management sold its small-group pension business and reduced its head office staff by 22 percent.

"THE COMPANY INTRODUCED NEW PRODUCTS IN ITS KEY MARKETS, POSITIONING ITSELF FOR FUTURE SALES GROWTH."

The Company experienced significant growth in the sale of Canadian group pension products. Group life and health sales also increased substantially, led by strong demand for the Company's new out-of-country medical insurance plan sponsored by the Canadian Snowbird Association and targeted at Canadians who

spend winters in the southern United States.

Sales of individual insurance declined, particularly in the United States, where a change in marketing approach is underway. During the past year, the Company introduced new individual insurance products in its key markets, positioning itself for future sales growth. These products include new term products in the United States, a new universal life product in Canada and updated unit-linked products in the United Kingdom.

The Company sold its U.S. individual disability insurance portfolio in December 1992. This had been a closed block of business since 1991, when it was decided that the U.S. disability portfolio was not large enough to compete effectively. The Company remains committed to expansion of its successful and growing Canadian individual disability insurance business.

OUTLOOK

Operating income in 1993 will reflect expense reductions related to the relocation and restructuring programs, the full effect of which should be felt in 1994. In addition, the improving trend in asset

"THE QUALITY FIRST PROCESS IS FUNDAMENTAL TO THE CORPORATE CULTURE."

defaults in the second half of 1992 and recent economic growth in North America suggest that defaults peaked in mid-1992.

As the Company emerges from the asset default difficulties of the past several years, our focus is on profitable sales growth in our core markets for annuities, life and health insurance.

In 1993, the Company will emphasize support of its distribution systems with new products and services. Crown Life is introducing new universal life products in the United States, and a new variable insurance product in Canada. Also, the Company is targeting a larger share of the medium-sized group market in Canada.

President's Message

A number of factors, including the broadened powers extended to financial institutions by the 1992 financial services legislation, will bear significantly on the future of the Canadian life insurance industry. A competitive business will become still more competitive, and a change in the way companies operate will be required. Relocation is accelerating this change at Crown Life.

Success in this environment will depend on developing a sustainable capability to provide customers with quality service at competitive cost. Crown Life strives to achieve this through its Quality First process. This process was advanced in 1992 with the establishment of quality measurement and control systems throughout the Company. New employees are being trained in the Quality First process, which is fundamental to the corporate culture.

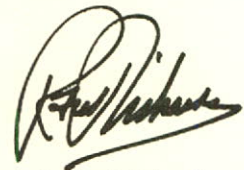
"IN MANY WAYS, CROWN LIFE IN REGINA WILL BE A NEW COMPANY."

In many ways, Crown Life in Regina will be a new company. While maintaining the values, relationships and knowledge base established over the past 93 years, Crown Life will benefit from the measures

being taken to increase operating efficiency and effectiveness, all of which support our objective of meeting customer service requirements.

While the Company continues to face many challenges, it enters 1993 with improved earnings potential as a result of the progress made in a number of important areas in 1992. We look forward to an exciting and successful era of profitable growth from our new Regina base.

On behalf of senior management, I extend thanks to all Crown Life employees and sales associates for their strong and dedicated efforts during the past year.



R. Fred Richardson

President and Chief Executive Officer

February 25, 1993

Management Discussion and Analysis

Crown Life commenced the relocation of its head office operations to Regina, Saskatchewan from Toronto, Ontario in the summer of 1992. The relocation is scheduled for completion in late 1993. The relocation and related operational restructuring will result in a significant reduction in expenses, principally in the areas of personnel and occupancy costs. This will result in improvements in future profitability.

SUMMARY

Combined shareholders' and policyholders' income before other items in 1992 was \$80.3 million, compared with \$76.5 million in 1991. After other items, total income was \$4.3 million in 1992, compared with a loss of \$154.3 million in 1991.

Shareholders' income before other items was \$18.3 million in 1992, compared with \$34.3 million in 1991. The loss on the shareholders' account after other items was \$44.1 million, compared with a loss of \$170.6 million in 1991. After preferred share dividends of \$9.6 million in 1992 and \$13.8 million in 1991, loss per Common and Third Preferred Share was \$19.59, compared with a loss of \$86.66 in 1991.

As required by the new Insurance Companies Act, the Company adopted generally accepted accounting principles (GAAP) in 1992. GAAP has been applied retroactively and 1991 results have been restated accordingly.

Income (loss)	1992	1991
	<i>(millions of dollars)</i>	
Income before other items		
Participating policyholders'	62.0	42.2
Shareholders'	18.3	34.3
	80.3	76.5
Income (loss) after other items		
Participating policyholders'	48.4	16.3
Shareholders'	(44.1)	(170.6)
	4.3	(154.3)
	<i>(dollars)</i>	
Loss per share	19.59	86.66

The change in shareholders' income before other items primarily reflects unfavourable mortality experience in the Company's U.S. individual insurance and reinsurance businesses and reduced amortized gains from real estate. Disability claims experience in the Company's Canadian group business continued to be poor in 1992.

Results of U.K.-based Crown Financial Management Limited improved significantly in 1992 and an operating profit was earned before provisions for restructuring. Canadian individual life insurance results also improved, reflecting favourable mortality and individual disability claims experience.

Other items in 1991 and 1992 consisted of provisions for excess asset defaults, costs associated with the relocation

of the Company's head office operations to Regina, and provisions for restructuring and other non-recurring expenses.

Participating policyholders' income before dividends and other items was \$62.0 million, compared with \$42.2 million in the prior year. The improvement reflected lower operating expenses, favourable mortality, and the improved operating performance of Crown Financial Management. After its share of other items, participating policyholders' income was \$48.4 million, compared with \$16.3 million in 1991. Dividends credited to participating policyholders amounted to \$55.2 million, compared with \$53.3 million in 1991.

Management Discussion and Analysis

Revenue declined to \$1.6 billion from \$1.9 billion in 1991, primarily as a result of the planned reduction in sales of guaranteed interest contracts (GICs) in the United States. This reduction is consistent with management's decision to discontinue underwriting new U.S. mortgage loans which have been the principal source of asset defaults.

Total assets increased to \$8.3 billion. In addition, the Company manages segregated funds which totalled \$1.8 billion at December 31, 1992, compared with \$2.1 billion at the end of 1991. The decrease resulted from the sale of the small-group pension business of Crown Financial Management.

RESULTS OF OPERATIONS

REVENUE

Revenue	1992	1991
	<i>(millions of dollars)</i>	
Premium income	936.4	1,184.3
Investment income	684.3	721.3
Other income	18.9	19.3
	1,639.6	1,924.9

Premium income declined in 1992 to \$936.4 million from \$1.2 billion in 1991. This reduction reflects a \$212.0 million reduction in the sale of GICs in the U.S. group pension division.

Individual life products accounted for 42 percent of premium income in 1992, compared with 35 percent in 1991. Other premium income was derived from reinsurance (20 percent), group life and health

insurance (20 percent), group pension products (14 percent), and individual health and annuity products (four percent).

Premiums - Business Segments

(percent of total)



- Individual life 42%
- Reinsurance 20%
- Group life and health 20%
- Group pensions 14%
- Individual health and annuity 4%

Geographically, 59 percent of premium income was generated in the United States in 1992, 36 percent in Canada, and five percent from international operations, including in the United Kingdom.

The percentage of premium income derived from group pension products declined to 14 percent in 1992 from 29 percent in 1991 because of lower sales of GICs in the United States. This resulted in corresponding increases in the proportions of other lines of business. There has been a similar effect on the geographic distribution of premium income. U.S. premium income accounted for 67 percent of the total in 1991. Premium distribution by line of business and geographic region is not expected to change as significantly in future years.

Other income consists primarily of fee income for the management of segregated funds and "administrative-services-only" group health plans.

POLICY BENEFITS

Policy benefit costs decreased to \$1.3 billion in 1992, from \$1.5 billion in 1991, reflecting lower sales of GICs in the United States.

EXPENSES

Operating expenses were reduced in 1992, reflecting the restructuring of Individual Insurance Operations in 1991 and continued tight control of expenses in all business units. Commissions and other policy-related expenses also decreased, as a result of lower sales.

Expenses	1992	1991
	<i>(millions of dollars)</i>	
Operating expenses	145.3	150.6
Commissions and other policy-related expenses	125.1	132.0
	270.4	282.6

Income, premium and other taxes totalled \$23.5 million in 1992, compared with \$21.8 million in 1991.

Also included in operating expenses are municipal, real estate, payroll and sales taxes paid by the Company in the various jurisdictions in which it operates. Including these taxes, total tax remittances to governments by the Company in 1992 were approximately \$57 million.

SUBSIDIARY PREFERRED SHARE DIVIDENDS

Crown Life Properties Inc., a wholly-owned subsidiary, is being amalgamated with Crown Life. Crown Life Properties redeemed its outstanding preferred shares on January 15, 1992. Accordingly, the amount charged to income for preferred share dividends paid by Crown Life Properties was \$0.4 million in 1992, compared with \$8.1 million in 1991.

OTHER ITEMS

The Company sets aside special provisions to cover the costs of current and estimated future asset defaults which are in excess of amounts included in policy liabilities for normal asset defaults. In 1992, amounts charged to income for asset defaults totalled \$45.0 million, compared with \$150.8 million in 1991. The portion of the expense attributable to the shareholders' account was \$40.0 million, compared with \$142.9 million in 1991. Most of these provisions were related to U.S. mortgage loans.

In 1992, the Company increased provisions for relocation and other expenses by \$31.0 million, of which \$22.4 million was attributable to the shareholders' account. This increase principally reflects the effect of the poor Toronto real estate market on the outlook for the Company's head office leases, and provisions for restructuring operations of Crown Financial Management.

In 1991, the Company provided \$80.0 million for costs to be incurred in the relocation of head office operations and for future expenses relating to restructuring the Company's North American insurance operations, and industry guarantee association assessments related to the industry's support of liabilities of failed insurers in the United States and Canada. Of this amount, \$62.0 million was attributable to the shareholders' account.

As at December 31, 1992, the remaining provisions for relocation and other expenses were \$105.3 million. It is anticipated that these provisions will be sufficient to complete the relocation and planned restructuring.

INCOME

Shareholders' income before other items was \$18.3 million, compared with \$34.3 million in 1991.

The Canadian individual insurance division recorded improved profits over 1991 as a result of favourable mortality experience, and favourable claims experience in individual disability products.

Crown Financial Management reported operating income in 1992, compared with a loss in 1991. Reserve strengthening of prior years was demonstrated to be adequate. During the year, Crown Financial Management sold its block of U.K. small-group pensions business, which had been the source of administrative problems and reserve strengthening in prior years. Other items include provisions for restructuring U.K. operations as a result of this sale.

Management Discussion and Analysis

Results in Group Operations continued to be affected in 1992 by the economic recession in Canada, and group disability claims experience was poor.

The U.S. individual insurance division incurred a loss as a result of unfavourable mortality and disability claims experience. The U.S. disability insurance business was sold by the Company late in 1992.

Reinsurance Operations were adversely affected by unfavourable mortality experience, representing a significant change from the favourable mortality experience of the past several years.

Managed Assets Operations recorded reduced earnings, attributable to reserve strengthening and higher expenses.

There was a loss attributable to shareholders in 1992 of \$44.1 million, compared with a loss of \$170.6 million in 1991, after provisions for asset defaults and relocation and other expenses.

FINANCIAL POSITION

ASSETS

Total consolidated assets increased to \$8.3 billion at December 31, 1992. Crown Life holds directly \$8.1 billion, representing 97 percent of total assets. The balance is held by its operating subsidiaries, all wholly owned, which include Crown America Life Insurance Company (U.S. group pensions and variable insurance products), Crown Financial Management (U.K. Operations), and American Crown Life Insurance Company (New York State operations). The book value of the Company's investment in each of the subsidiaries at December 31, 1992 was \$40.6 million, \$33.2 million and \$8.7 million, respectively.

Assets
(percent of total)



■ Bonds 39%
■ Mortgage loans 39%
■ Shares and real estate 8%
■ Other 14%

The Company has two other operating subsidiaries: Crown Life Energy Inc. (interests in Canadian oil and gas properties), which has a book value of \$3.0 million; and Crown Life Investment Management Inc. (investment management operations), which has a nominal book value.

Segregated funds under management were \$1.8 billion at December 31, 1992, compared with \$2.1 billion a year earlier. The decrease reflects the sale of the small-group pensions business of Crown Financial Management. Excluding the effect of this sale, segregated funds increased during 1992 by 11.4 percent.

Traditional insurance products are backed primarily by fixed income investments, including publicly-traded bonds, private placements, and mortgages, with durations matched to related insurance and annuity liabilities. Portfolio management includes ongoing analysis of credit quality, asset-liability matching and liquidity by senior investment management personnel.

Bonds

At December 31, 1992, the Company's bond portfolio totalled \$3.3 billion, representing 39.4 percent of total assets, compared with 36.9 percent at the end of 1991. The portfolio includes \$1.5 billion of U.S. and Canadian government bonds. The Company has emphasized high-grade bonds, and only 3.8 percent of the portfolio is below investment grade. The increase in the bond portfolio as a percentage of total assets is the result of management's decision to increase the weighting of bonds and reduce the weighting of mortgage loans in the Company's asset mix.

Mortgage Loans

Total mortgage loan investments at December 31, 1992 were \$3.2 billion, which is \$114.7 million less than at December 31, 1991. Mortgage loans represented 38.6 percent of total assets, compared with 40.3 percent a year earlier.

At December 31, 1992, U.S. mortgage loans represented U.S.\$2.1 billion (31.7 percent) of total assets, compared with U.S.\$2.3 billion a year earlier. At December 31, 1992, U.S. mortgage loans in arrears 90 days or more totalled U.S. \$103.3 million, representing 1.6 percent of total assets. This compares with 1.9 percent of total assets a year earlier.

Canadian and other mortgage loans were \$567.4 million (6.8 percent of total assets). The Company's experience with Canadian mortgage loans remains satisfactory. At December 31, 1992, Canadian mortgage loans in arrears 90 days or more amounted to \$14.7 million, representing 0.2 percent of total assets.

The U.S. mortgage loan portfolio consists of loans in 41 states. Stringent standards for underwriting and diversification provide some protection from currently weak real estate markets. Property types are restricted to retail, office, apartments, and industrial. Only 13 loans exceed U.S.\$10 million and the largest of these is U.S.\$23 million. Mortgage loans in any one state represent no more than 5.7 percent of the portfolio with the exception of California, which represents 20.4 percent. The California exposure is mitigated by the fact that 60 percent of the mortgage loans in that state were underwritten prior to 1987. The Company has not originated any new mortgage loans in the United States since 1990.

Real Estate

Real estate amounted to \$555.1 million at December 31, 1992. This represents 6.7 percent of total assets, compared with 5.7 percent a year earlier.

Real estate held for investment amounted to \$387.2 million. Most real estate held for investment is located in Canada. U.S. properties held for investment have a book value of \$42.8 million.

Properties acquired by foreclosure totalled \$212.2 million at December 31, 1992, compared with \$193.8 million a year earlier. Provisions established to adjust these values to net realizable value were \$44.3 million, compared with \$62.4 million in the prior period. In 1992, foreclosed properties with a book value of \$114.4 million were sold, compared with \$70.3 million in 1991. Most properties acquired by foreclosure are in the United States. The Company has made the accelerated sale of foreclosed properties a priority.

Provisions for Asset Defaults

At year end, provisions for future asset default costs amounted to \$153.2 million, compared with \$208.8 million a year earlier. The provisions are primarily related to U.S. mortgage loans.

There is increasing evidence that U.S. real estate markets are stabilizing. For both the industry and the Company, problem assets as measured by mortgage loans in default and real estate acquired by foreclosure, decreased in the second half of 1992 compared with the first half. Provisions previously established for asset default costs were adequate to cover costs incurred in 1992 and are adequate to cover costs expected to be incurred in 1993.

Management Discussion and Analysis

Because of significant decreases in rental rates and the resulting effect on real property values, real estate problems will continue to emerge for the next several years as leases mature and are renewed at lower market rates. For this reason, in 1992 the Company increased its provisions by \$45.0 million to cover losses on currently performing mortgage loans that may be incurred some time after 1993. These provisions provide for expected lost interest and lost principal. Interest rates on mortgage renewals are higher than assumed in product pricing, thereby providing additional margins to cover future asset default costs.

LIQUIDITY AND LIABILITIES

To ensure liquidity, the Company's asset maturities are matched to cash requirements for the next three years, and the Company holds at least 10 percent of its total invested assets in readily marketable government bonds. The Company's cash position and high-quality bonds, together with other assets that can be liquidated within 45 business days, amount to total liquid assets of \$3.2 billion.

Various policy liabilities of the Company have cash surrender values. The majority of such liabilities provide for significant penalties on surrender and these penalties act as a deterrent to surrender. The Company's current level of asset liquidity is appropriate given the profile of its liabilities and the probability of surrender.

PARTICIPATING POLICYHOLDERS' ACCOUNT AND SHAREHOLDERS' EQUITY

In 1991, Haro Financial Corporation subscribed for \$250 million of shares and warrants. This amount was recorded in shareholders' equity at that time. Of that amount, \$75.0 million was received in cash in 1991 and the balance was recorded as share and warrant subscriptions receivable. In 1992, the

Participating Policyholders' Account and Shareholders' Equity

	1992	1991
	<i>(millions of dollars)</i>	
Participating policyholders' account	38.5	43.8
Shareholders' equity	368.9	409.6
	<u>407.4</u>	<u>453.4</u>

Company received cash payment for a further \$141.4 million. Proceeds are being used for general corporate purposes and to fund the costs of relocation. At December 31, 1992, unpaid subscriptions totalled \$33.6 million, for which cash will be received as costs of relocation of head office operations are incurred.

Preferred share dividends of \$9.6 million, compared with \$13.8 million in 1991, were paid during the year.

Dividends on the \$75 million of Second Preferred Shares, First Series, were suspended in the third quarter of 1991.

The holder of these shares, Crownx Inc., agreed to waive such dividends until the conversion of the Third Preferred Shares held by Haro Financial, expected in 1996. No dividends were paid on common shares during 1992.

Dividends paid to participating policyholders were \$55.2 million in 1992, compared with \$53.3 million in 1991. Dividends for each policy within a class of participating policies are calculated using a method which reflects the difference between actual experience with respect to mortality, investments, expense and policy termination, and the assumptions made as to that experience in the original calculation of the policy premium. The total amount of dividends paid in a year reflects the need to maintain a minimum level of surplus for contingencies and possible adverse future experience, as well as the future growth plans of the Company. The Company intends to transfer a portion of

distributed participating surplus to the shareholders' account annually as permitted by the Insurance Companies Act.

Classes of policyholders are defined, and redefined from time to time, by reference to policy factors, such as premium rates, or to experience factors, such as mortality, which may vary based on geographic location, risk selection procedures, or other experience factors. The methods used are intended to give consistent and equitable treatment to different classes and generations of policyholders.

The foreign currency translation adjustment accounts for shareholders and participating policyholders increased to \$42.2 million at December 31, 1992 from \$26.2 million the previous year. This increase primarily resulted from the strengthening of the U.S. dollar against the Canadian dollar, from a conversion rate of Cdn\$1.16 per U.S. dollar at the end of 1991 to Cdn\$1.27 at December 31, 1992.

The Office of the Superintendent of Financial Institutions Canada (OSFI) has developed regulatory capital standards for Canadian life insurance companies. The Company is in compliance with these standards.

COMPETITION, PRICING AND PROFITABILITY

Profitability of life insurance companies is determined by the design and management of products that are accepted by the marketplace, have manageable asset credit risks and asset-liability matching risks, and have adequate allowances for expenses and profits.

OPERATING PHILOSOPHY

Crown Life's long-term business objective is to achieve profitable growth on a continuous basis by extending the Company's products and services to an increasing customer base consistent with financially sound products, satisfactory returns on capital for shareholders and policyholders, and quality service to customers and intermediaries. Crown Life places significant emphasis on quality service through its Quality First program involving all employees, and on the product design process whereby profitability standards are set for all product lines based on a minimum return-on-capital pricing target.

Immediate priorities of the Company are profitability and successful relocation to Regina. The Company is emphasizing the provision of quality service to policyholders; strengthening of product, service and marketing support for sales intermediaries; and accelerated sale of foreclosed real estate.

MARKET FACTORS

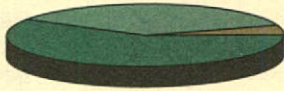
As is typical in the industry, the Company's administration expenses exceed the amounts included in policy premiums to cover those expenses. The Company's relocation of head office operations to Regina will result in significantly lower administration costs because of lower staffing requirements with increased productivity, and lower occupancy costs. These changes will position Crown Life to compete more effectively in its major markets.

In Canada, the business environment for both life and health insurance operations generally is stable. New laws regulating Canadian financial institutions that came into force in 1992 will result in more direct competition from other financial service sectors. Crown Life will concentrate on markets where it has a strong competitive position. The relocation of head office operations will assist in achieving the lower cost structures that will be important to compete successfully in the future.

Management and Discussion Analysis

Premiums – Geographic Segments

(percent of total)



■ United States	59%
■ Canada	36%
■ International	5%

The Canadian life insurance operations continue to be profitable. The Canadian health insurance operations are currently incurring losses because claims experience tends to be unfavourable during economic recessions. The Company has undertaken several initiatives throughout 1992 to control claims experience and reduce its exposure to these risks. In Canadian pensions operations, expense reductions through restructuring and relocation should return this line of business to profitability.

In the U.S. individual life insurance market, competitive pricing and the trend towards interest-sensitive products continue to put pressure on profit margins. The industry is taking steps to reduce expenses and improve efficiency, and some degree of industry restructuring is in progress. In 1991, the Company shifted its emphasis from the high-end brokerage market for individual life products in the

United States to the middle-income market and narrowed its product range. Head office support areas have been downsized. These actions have resulted in substantial expense reductions and allow the division to be profitable at the lower sales levels it is now experiencing.

The U.S. pensions division also operates in a highly competitive market. The Company has substantially withdrawn from the GIC market and, in 1992, the division's sales operation was downsized. The Company's emphasis is now on the sale of pooled funds.

Investment-linked individual life and pensions products are sold in the United Kingdom by Crown Financial Management. A stable pricing environment exists in the U.K. insurance market, and profitability in the Company's U.K. operations is dependent on operating within expense margins. Substantial progress was made in 1991 and 1992 in reducing expenses to satisfactory levels. Crown Life increased its interest in Crown Financial Management to 100 percent in 1992 from 95 percent. It is expected that there will be continuing improvement in the results of U.K. operations in 1993.

The Company's share of the reinsurance market in North America is approximately three percent. This business is highly influenced by mortality experience. After several years of favourable results, unfavourable mortality experience substantially reduced the profitability of this business in 1992.

One specific risk affecting the claims experience of the life insurance industry is Acquired Immuno-deficiency Syndrome ("AIDS"). The majority of the Company's policies are rate-adjustable and will be adjusted over time in response to AIDS experience. All new life reinsurance, and directly written policies in excess of a conservative face amount, are "AIDS tested".

The Company has established maximum retention limits in order to manage risk. On new policies issued, the Company retains maximum insurance coverage on any one life of \$1.5 million, in either Canadian or U.S. currency. The Company had ceded policy liabilities totalling \$301.8 million at December 31, 1992.

Management's Responsibility for Financial Reporting

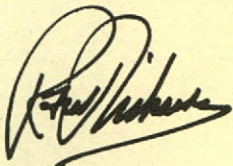
The consolidated financial statements are the responsibility of management and are prepared in accordance with generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada. In the opinion of management, the consolidated financial statements fairly reflect the financial position, results of operations and changes in financial position of the Company within reasonable limits of materiality. All financial information in this annual report is consistent with that in the financial statements.

The accounting systems and related internal controls of the Company are designed to provide reasonable assurance that financial records are complete and accurate and form a proper basis for the preparation of the financial statements and, in addition, that assets are safeguarded against loss from unauthorized use or disposition. Also, a program of internal audits is carried out and coordinated with the external auditors.

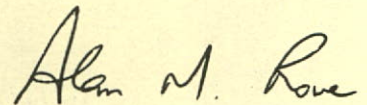
The Appointed Actuary is appointed by the Board of Directors to carry out an annual valuation of the policy liabilities included in the consolidated financial statements for the purpose of issuing reports to the policyholders, shareholders and regulatory authorities. In performing these valuations, the Appointed Actuary makes assumptions as to future rates of interest, mortality, morbidity, policy lapse, expenses and other contingencies, taking into account the circumstances of the Company and the policies in force. The Appointed Actuary makes use of the work of the external auditors in verifying the data files used in the valuation.

Management obtains approval of the financial statements by the Board of Directors. The Board of Directors has appointed an Audit Committee, which is comprised of unaffiliated Directors. The Committee meets regularly during the year to review significant accounting and audit matters with management and the external auditors and to review the interim and annual financial statements of the Company.

Peat Marwick Thorne has been appointed external auditors. It is the external auditors' responsibility to report to the policyholders, shareholders and the Superintendent of Financial Institutions Canada regarding the fairness of presentation of the Company's financial position and results of operations as shown in the annual financial statements. As permitted by statute, the external auditors make use of the work of the Appointed Actuary for policy liabilities included in the financial statements in respect of which the Appointed Actuary has given an opinion. The Auditors' Report outlines the scope of their examination and their opinion.



R. Fred Richardson
President and Chief Executive Officer



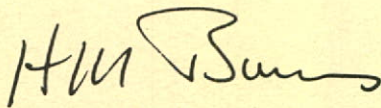
Alan M. Rowe
Vice-President, Finance

Regina, Canada
February 5, 1993

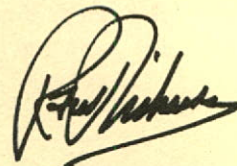
Consolidated Balance Sheets

December 31	1992	1991
	(thousands of dollars)	
Invested assets		
Bonds (note 4)	3,281,189	3,052,230
Mortgage loans (note 4)	3,214,484	3,329,211
Real estate (note 4)	555,093	474,296
Shares (note 4)	81,765	91,948
Loans to policyholders	409,954	363,753
Cash and short-term deposits	174,417	229,884
Other	36,735	34,492
	<u>7,753,637</u>	<u>7,575,814</u>
Other assets		
Accrued investment income	111,703	105,402
Premiums receivable	41,226	38,343
Amounts receivable under financial reinsurance agreements	292,410	261,917
Share and warrant subscriptions receivable (note 7)	33,574	175,000
Other	105,827	106,688
	<u>584,740</u>	<u>687,350</u>
Total assets	<u>8,338,377</u>	<u>8,263,164</u>

On behalf of the Board



H. Michael Burns
Chairman



R. Fred Richardson
President and Chief Executive Officer

December 31	1992	1991
	(thousands of dollars)	
Policy liabilities		
Provision for future policy benefits	6,832,672	6,784,485
Policyholders' funds on deposit	220,970	200,588
Benefits payable and provision for unreported claims	202,033	141,936
Provision for policyholders' dividends	43,416	42,316
	<u>7,299,091</u>	<u>7,169,325</u>
Other liabilities		
Bank and other indebtedness	73,468	59,220
Amounts payable under financial reinsurance agreements	236,990	155,023
Other	189,200	220,867
	<u>7,798,749</u>	<u>7,604,435</u>
Deferred net gains realized on disposal of invested assets (note 4)	132,190	106,969
Preferred shares, Crown Life Properties Inc.	-	98,360
Participating policyholders' account (note 7)	38,560	43,822
Shareholders' equity (note 7)	368,878	409,578
	<u>407,438</u>	<u>453,400</u>
Total liabilities, participating policyholders' account and shareholders' equity	<u>8,338,377</u>	<u>8,263,164</u>

Consolidated Statements of Operations

Years ended December 31	1992	1991
	(thousands of dollars)	
Revenue		
Premiums	936,474	1,184,318
Investment income (note 4)	684,272	721,290
Other	18,896	19,256
	1,639,642	1,924,864
Policy benefits	1,264,979	1,535,830
Expenses		
Commissions and operating expenses	270,428	282,559
Taxes - income, premium and other (note 8)	23,548	21,807
	1,558,955	1,840,196
Income before the undernoted	80,687	84,668
Subsidiary preferred share dividends	355	8,105
Income before other items	80,332	76,563
Other items		
Provision for excess asset defaults (note 5)	45,000	150,839
Provision for relocation and other expenses (note 6)	31,000	80,000
Income (loss) after other items	4,332	(154,276)
Participating policyholders' income before dividends, net of allocations to shareholders of \$3,449 (1991 - \$1,363)	48,430	16,274
Loss for the year	44,098	170,550
Loss per share (in dollars)	19.59	86.66

Consolidated Statements of Changes in Financial Position

Years ended December 31	1992	1991
	(thousands of dollars)	
Cash provided by (used in) operations		
Loss for the year	(44,098)	(170,550)
Items not involving cash		
Increase (decrease) in policy liabilities	(321,852)	158,148
Other	(26,318)	84,804
Policyholders' dividends	(55,209)	(53,258)
Sales and maturities of invested assets, net of purchases	268,076	107,652
Net change in other assets and liabilities	77,731	102,875
	(101,670)	229,671
Cash provided by (used in) financing activities		
Preferred shares and warrants issued	141,426	75,000
Share issue expenses	(98)	(3,805)
Preferred shares of subsidiary acquired or redeemed	(98,360)	(25,184)
Preferred shares purchased for cancellation	(1,368)	(2,959)
Shareholders' dividends	(9,645)	(13,773)
	31,955	29,279
Increase (decrease) in cash position	(69,715)	258,950
Cash position, beginning of year	170,664	(88,286)
Cash position, end of year	100,949	170,664
Cash position is represented by		
Cash and short-term deposits	174,417	229,884
Bank and other indebtedness	(73,468)	(59,220)
	100,949	170,664

Consolidated Statements of Participating Policyholders' Account

Years ended December 31	1992	1991
	(thousands of dollars)	
Balance, beginning of year, as previously reported	27,417	60,993
Adjustment for change in accounting policy (note 2)	15,672	19,080
Balance, beginning of year, as restated	43,089	80,073
Income for the year	48,430	16,274
Dividends	(55,209)	(53,258)
Balance, end of year	36,310	43,089

Consolidated Statements of Retained Earnings (Deficit)

Years ended December 31	1992	1991
	(thousands of dollars)	
Balance, beginning of year, as previously reported	94,792	274,735
Adjustment for change in accounting policy (note 2)	(137,715)	(129,530)
Balance, beginning of year, as restated	(42,923)	145,205
Loss for the year	(44,098)	(170,550)
Share issue expenses	(98)	(3,805)
Preferred share dividends	(9,645)	(13,773)
Balance, end of year	(96,764)	(42,923)

Consolidated Statements of Changes in Net Assets of Segregated Funds

Years ended December 31	1992	1991
	(thousands of dollars)	
Net assets, beginning of year	2,118,660	1,938,499
Increase during the year		
Amounts received from unitholders	312,755	280,220
Investment income	127,806	122,506
Net gain realized on sale of investments	164,308	55,125
Net unrealized increase in market value of investments	-	77,337
	604,869	535,188
Decrease during the year		
Amounts withdrawn by unitholders	339,978	269,527
Net unrealized decrease in market value of investments	15,568	-
Year-end currency revaluation	113,038	39,077
Management fees and other operating costs	63,734	46,423
Sale of small-group pension business of Crown Financial Management Limited	385,878	-
	918,196	355,027
Net assets, end of year	1,805,333	2,118,660
Net assets consist of:		
Bonds	402,755	487,265
Mortgage loans	73,832	82,693
Shares	1,026,999	1,196,491
Real estate	65,361	84,918
Cash and short-term deposits	276,536	242,290
Accrued investment income	17,373	16,914
Other net assets	(57,523)	8,089
Total net assets	1,805,333	2,118,660

Notes to Consolidated Financial Statements

December 31, 1992 and 1991

1. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

(a) Invested assets

Investments are accounted for on the following basis:

(i) Bonds and mortgage loans

Bonds are carried at cost and mortgage loans at outstanding principal balances, both of which are adjusted for unamortized premiums or discounts. Net gains and losses realized on sales of bonds and mortgage loans are deferred and amortized over the period to maturity of the assets sold.

(ii) Shares

Shares are carried at moving average market value whereby the carrying value is adjusted towards market value at 15% per annum. Net gains and losses realized on the disposal of stocks are deferred and amortized to income at 15% per annum on a declining balance basis.

(iii) Real estate

Real estate held for investment, which includes own-use property, is carried at moving average market value whereby the carrying value is adjusted towards market value at 10% per annum. Net gains and losses realized on disposal of real estate held for investment are deferred and amortized to income at 10% per annum on a declining balance basis.

Real estate acquired by foreclosure is carried at the lower of cost and net realizable value.

(b) Provisions for asset defaults

The Company maintains provisions for defaults on principal and interest payments due on invested assets consisting of: (i) a normal provision which is the present value of an explicit margin in the interest rate used in determining policy liabilities, and a general provision for expected future asset defaults in excess of normal, both of which are reported as a component of policy liabilities, and (ii) provisions against specific assets which are offset against the related asset category.

(c) Policy liabilities

Policy liabilities have been calculated using the policy premium method. Policy liabilities represent the amount which, together with future premiums and investment income, will be sufficient to pay future benefits, dividends and expenses on insurance and annuity contracts. The process of calculating policy liabilities necessarily involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields, future expense levels and rates of surrender; consequently, policy liabilities include reasonable provisions for adverse deviations from those estimates. Experience related to these factors is monitored on an ongoing basis and, when appropriate, policy liabilities are adjusted to reflect changed circumstances. Such adjustments are included in income in the year of change.

(d) **Foreign currency translation**

Revenues and expenses of self-sustaining foreign operations are translated at average rates of exchange in effect during the year. Assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Unrealized exchange gains or losses arising on translation are deferred and included in policyholders' and shareholders' equity.

Assets and liabilities of domestic operations denominated in foreign currencies are translated at the exchange rates in effect at the balance sheet date. Translation gains and losses are reflected in earnings in the period in which they arise except for gains and losses relating to non-current monetary items. Translation gains and losses relating to these items are deferred and amortized on a straight-line basis over the remaining life of the respective item.

(e) **Income taxes**

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

(f) **Segregated funds**

Certain contracts allow policyholders to invest in segregated funds managed by the Company for the benefit of the policyholders. Substantially all risks and rewards of ownership accrue to the policyholders. Segregated accounts business is maintained separately, and is shown in the consolidated statements of changes in net assets of segregated funds. Segregated funds assets are carried at year-end market values.

(g) **Comparative figures**

Certain 1991 amounts have been reclassified to conform with the financial statement presentation adopted in 1992.

2. **Changes in accounting policies**

In accordance with the requirements of the Insurance Companies Act which came into effect in 1992, the Company adopted generally accepted accounting principles (GAAP) as described in note 1. GAAP has been applied retroactively and 1991 amounts have been restated accordingly. The new policies are as follows:

- (a) Real estate acquired by foreclosure is carried at the lower of cost and net realizable value. This asset was previously accounted for under the policy for real estate held for investment.
- (b) In the health account, realized and unrealized gains and losses on share and real estate investments are accounted for using the moving average market value policy described in note 1. Realized gains and losses were previously recognized in income when realized. Unrealized gains and losses on share and real estate investments were not recognized.
- (c) Policy liabilities are calculated using the policy premium method. Policy liabilities were previously calculated using the net premium valuation method described by the predecessor to the current Canadian insurance law.

As a result of the adoption of GAAP, the 1991 loss was increased by \$8,185,000. The effect of the change on 1992 net income is not determinable.

The effect of the adoption of GAAP on the foreign currency translation adjustment as at January 1, 1992 and 1991 was to increase shareholders' equity by \$9,301,000 and \$9,269,000, respectively, and to increase the participating policyholders' account by \$234,000 for both 1992 and 1991.

Notes to Consolidated Financial Statements

The effect of the adoption of GAAP on retained earnings (deficit) in the participating policyholders' account and shareholders' equity is as follows:

	1992		1991	
	Participating Policyholders' Account	Shareholders' Equity	Participating Policyholders' Account	Shareholders' Equity
	(thousands of dollars)			
Balance, beginning of year, as previously reported	27,417	94,792	60,993	274,735
Effect of new accounting policies:				
Real estate acquired by foreclosure	(6,147)	(87,055)	(5,215)	(73,754)
Realized gains on health account investments	-	(21,042)	-	(24,062)
Policy liabilities	21,819	(29,618)	24,295	(31,714)
	15,672	(137,715)	19,080	(129,530)
Balance, beginning of year, as restated	43,089	(42,923)	80,073	145,205

3. Acquisition of minority interest

In December 1992, the Company increased its interest in its U.K. subsidiary Crown Financial Management Limited from 95 percent to 100 percent through the purchase of 6,880,028 common shares for cash consideration of \$680,000 resulting in goodwill of \$618,000. Goodwill is amortized over twenty years on a straight line basis.

4. Invested Assets

(a) The carrying values and estimated market values of invested assets are as follows:

	1992		1991	
	Carrying Value	Market Value	Carrying Value	Market Value
	(thousands of dollars)			
Bonds	3,281,189	3,405,000	3,052,230	3,178,000
Mortgage loans	3,214,484	3,250,000	3,329,211	3,216,000
Real estate	555,093	552,000	474,296	512,000
Shares	81,765	84,000	91,948	98,000
	7,132,531	7,291,000	6,947,685	7,004,000

Market values for publicly-traded securities are determined by reference to quoted market prices.

For bonds and mortgage loans which are not publicly-traded, market values are calculated using cash flows adjusted for expected default costs, discounted at current market interest rates for similar investments.

Market values for real estate held for investment are based on estimated average market values. Net realizable value for real estate acquired by foreclosure is estimated as the expected selling price less costs of disposal of each property.

(b) Deferred net gains (losses) realized on disposal of invested assets is comprised of:

	1992	1991
	(thousands of dollars)	
Bonds	15,148	(19,743)
Mortgage loans	1,477	2,866
Real estate	32,833	37,949
Shares	82,732	85,897
	<u>132,190</u>	<u>106,969</u>

(c) Investment income was derived from the following sources:

	1992	1991
	(thousands of dollars)	
Bonds	297,472	287,260
Mortgage loans	331,194	359,931
Real estate	38,966	49,375
Shares	16,104	18,135
Loans to policyholders	26,540	23,827
Cash and short-term deposits	10,373	15,115
Other	3,020	7,490
	<u>723,669</u>	<u>761,133</u>
Expenses, including interest of \$10,838,000 (1991 - \$12,225,000)	39,397	39,843
	<u>684,272</u>	<u>721,290</u>

(d) Investment income includes the amortization of deferred net gains (losses) realized on disposal of invested assets and of net gains unrealized on real estate and shares as follows:

	1992	1991
	(thousands of dollars)	
Bonds	6,883	(1,235)
Mortgage loans	984	2,480
Real estate	3,343	7,500
Shares	14,829	16,857
	<u>26,039</u>	<u>25,602</u>

Notes to Consolidated Financial Statements

5. Provisions for Asset Defaults

The consolidated balance sheet includes provisions of \$153,200,000 (1991 - \$208,800,000) for asset defaults. The provisions consist of:

	1992	1991
	(thousands of dollars)	
General and normal provisions	65,800	86,300
Specific provisions	87,400	122,500
	153,200	208,800

Most of the provisions relate to mortgage loans in the United States. As at December 31, 1992, mortgage loans on which interest and principal payments were in arrears 90 days and over amounted to \$149,220,000 (1991 - \$163,200,000). The Company also owns real estate acquired by foreclosure of \$167,900,000 (1991 - \$131,400,000) net of specific provisions of \$44,300,000 (1991 - \$62,400,000).

The loss for the year included an expense of \$45,000,000 (1991 - \$150,839,000) to increase provisions for the cost of asset defaults in excess of normal. In 1992 net foregone interest and principal losses charged to provisions were \$112,300,000 (1991 - \$69,500,000). The provision increased by \$11,700,000 during 1992 as a result of the effect of the strengthening of the U.S. dollar on provisions maintained in U.S. dollars.

6. Provision for Relocation and Other Expenses

The Company provided \$31,000,000 (1991 - \$80,000,000) for relocation and other expenses. The provision is primarily with respect to costs being incurred in connection with the relocation of the Company's head office operations to Regina, Saskatchewan which is expected to be completed by late 1993. Other expenses consist of the cost of restructuring certain operations, industry assessments in Canada and the United States to support the liabilities of other insurers, and other items.

7. Participating Policyholders' Account and Shareholders' Equity

	1992	1991
	(number of shares)	
The authorized share capital of the Company consists of:		
Class I preferred shares;	11,404,099	11,467,899
Second preferred shares;	6,000,000	6,625,000
Third preferred shares;	1,250,000	1,250,000
Fourth preferred shares;	20,000,000	20,000,000
Fifth preferred share;	1	1
Class A shares, non-voting; and	5,000,000	5,000,000
Common shares	25,000,000	25,000,000

The Class I, Second and Third preferred shares are issuable in series.

Prior to June 1, 1992, the Class I, Second and Third preferred shares had a par value of \$25 per share and all other shares had a par value of \$1 per share. Under the terms of the Insurance Companies Act which was enacted on June 1, 1992, all shares are deemed to be without par value,

and contributed surplus arising on previous issues of shares has been reallocated to the stated capital of the respective shares.

Participating policyholders' account and shareholders' equity is comprised as follows:

	1992	1991
	(thousands of dollars)	
Participating Policyholders' Account		
Retained Earnings (Deficit)		
Appropriated	84,861	86,886
Unappropriated	(48,551)	(43,797)
	<u>36,310</u>	<u>43,089</u>
Foreign Currency Translation Adjustment	2,250	733
	<u>38,560</u>	<u>43,822</u>
Shareholders' Equity		
Share and Warrant Capital to be Issued	33,574	175,000
Share and Warrant Capital		
3,804,099 Class I Cumulative Preferred Shares, Series A (1991 - 3,867,899)	95,102	96,697
3,000,000 Second Preferred Shares, First Series	75,000	75,000
375,000 Third Preferred Shares, First Series	75,000	9,375
125,000 Third Preferred Shares, Second Series	25,000	-
500,000 Third Preferred Shares, Third Series	100,000	-
1 Fifth Preferred Share	-	-
2,000,000 Common Shares	2,000	2,000
16,425,914 Fifth Series Second Preferred Share Warrants	16,426	-
	<u>388,528</u>	<u>183,072</u>
Contributed Surplus	3,544	68,942
Retained Earnings (Deficit)		
Appropriated	199,098	226,139
Unappropriated	(295,862)	(269,062)
	<u>(96,764)</u>	<u>(42,923)</u>
Foreign Currency Translation Adjustment	39,996	25,487
	<u>368,878</u>	<u>409,578</u>
Total participating policyholders' account and shareholders' equity	<u>407,438</u>	<u>453,400</u>

The Class I Cumulative Preferred Shares, Series A, are entitled to receive fixed quarterly cumulative preferential cash dividends at a rate of \$2.50 per annum. The Class I Preferred Shares are redeemable at the option of the Company at prices ranging from \$25.20 until September 30, 1993 to \$25.00 after September 30, 1994. During 1992, the Company purchased for cancellation 63,800 (1991 - 154,100) Class I Preferred Shares for cash consideration of an average of \$21.46 (1991 - \$19.19) per share.

The Second Preferred Shares are subordinate to the Class I Preferred Shares.

Notes to Consolidated Financial Statements

The Second Preferred Shares, First Series are entitled to receive fixed quarterly cumulative preferential cash dividends at a rate of 10% per annum in the case of dividends payable to December 31, 1993 and, thereafter, at a floating rate based on the prime rate of interest. The Second Preferred Shares, First Series are convertible into Common Shares of the Company to December 31, 1993 at a price equal to the greater of the market value and book value at the time of conversion. The holder of the Second Preferred Shares, First Series, Crownx Inc., has waived its rights, until the conversion of the Third Preferred Shares, First Series into Fourth Preferred Shares or Common Shares, (i) to receive dividends commencing with the payment for the third quarter of 1991 and (ii) to convert its shares. The Second Preferred Shares are not retractable by the holder but are redeemable at any time at the option of the Company at \$25.25 per share.

The Third Preferred Shares are subordinate to the Class I Preferred Shares and Second Preferred Shares. The Third Preferred Shares are convertible into Fourth Preferred Shares and, subject to receipt of all necessary insurance regulatory approvals, Common Shares. The conversion will be effective (i) in 1996 in which case the conversion price will be based on a multiple of calculated earnings over the period 1992 to 1995 but will be a maximum of \$171.875 per Fourth Preferred Share or Common Share assuming the exercise of all Warrants referred to below, or (ii) on such earlier date that the Company completes a significant issue of Common Shares, or Crownx Inc. disposes of all of the Common Shares held by it, in which case the conversion price will be based on the issue price or sale price, respectively.

Subject to receipt of all necessary insurance regulatory approvals, the holders of Third Preferred Shares are entitled to vote at meetings of shareholders on the basis that, instead of Third Preferred Shares issued at a price of \$200.00 per share, Common Shares had been issued at a price based on a formula which, assuming the exercise of all Warrants referred to below, is \$171.875. The Third Preferred Shares are entitled to dividends when dividends are declared on Common Shares determined at a rate assuming the issuance of Common Shares instead of Third Preferred Shares as noted above. In the event of liquidation, the Third Preferred Shares would be entitled to participate at twice the rate of the Common Shares, Class A Shares and Fourth Preferred Shares. The Third Preferred Shares are not redeemable.

The Fourth Preferred Shares have the same rights and privileges as Common Shares except that they are non-voting. The Fourth Preferred Shares are convertible on a share-for-share basis into Common Shares subject to receipt of all necessary insurance regulatory approvals, and are entitled to dividends when dividends are declared on Common Shares at the same rate per share. The Fourth Preferred Shares are not redeemable.

The holder of the Fifth Preferred Share has the right to vote separately as a class with respect to any proposal to change the location of the Company's head office operations to a place not in the Province of Saskatchewan. The Fifth Preferred Share is redeemable by the Company after December 31, 2031 at a price of \$1.00.

In September 1991, Haro Financial Corporation subscribed for various series of preferred shares and warrants for total consideration of \$250,000,000. The subscriptions were recorded as share and warrant subscriptions receivable and share and warrant capital to be issued until receipt of cash proceeds.

Under the terms of the above subscription, the Company has issued to Haro Financial the following Second Preferred Shares:

Date	Number and Series of Second Preferred Shares	Cash Consideration <small>(thousands of dollars)</small>
September 1991	375,000 Second Series	75,000
April 1992	125,000 Third Series	25,000
August 1992	250,000 Fourth Series	50,000
September 1992	250,000 Fourth Series	50,000
		200,000

In accordance with their terms, the Second Preferred Shares, Second, Third and Fourth Series were converted to Third Preferred Shares, First, Second and Third Series, respectively.

In December 1991, the Company issued to Haro Financial one Fifth Preferred Share for cash consideration of \$1.00.

In addition, Haro Financial has subscribed for Warrants for Second Preferred Shares, Fifth Series, to a maximum of 50,000,000 Warrants at \$1.00 each, in an amount equal to costs incurred in connection with the Company's relocation of its head office. Two hundred Warrants will entitle the holder to acquire one Second Preferred Share, Fifth Series which will be immediately converted into one Third Preferred Share, Fourth Series. This subscription is secured by funds held in trust at a major Canadian trust company. In the event that the relocation is not completed, the Company may be required to repurchase any outstanding Warrants for consideration equal to their issue price.

During 1992, the Company issued 16,425,914 Fifth Series Second Preferred Share Warrants for cash consideration of \$16,425,914.

Earnings per share have been calculated on the basis that issued Third Preferred Shares have been converted to common equity assuming a conversion price of \$171.875 per share.

Changes in contributed surplus consist of:	1992	1991
	<small>(thousands of dollars)</small>	
Balance, beginning of year	68,942	967
Excess of proceeds over par value on:		
Issue of 375,000 Second Preferred Shares, Second Series	-	65,625
Issue of 125,000 Second Preferred Shares, Third Series	21,875	-
Excess of purchase price over book value on:		
Purchase for cancellation of 63,800 (1991 - 154,100) Class I Cumulative Preferred Shares, Series A	227	894
Purchase of 1,065,600 Series 1 Preferred Shares of Crown Life Properties Inc.	-	1,456
Reallocation of contributed surplus arising on issue of Second Preferred Shares, Second and Third Series, to stated capital of the respective shares	(87,500)	-
Balance, end of year	3,544	68,942

Notes to Consolidated Financial Statements

8. Taxes – Income, Premium and Other

The provision for tax expense of \$23,548,000 (1991 - \$21,807,000) includes income taxes, primarily Canadian investment income tax, of \$4,996,000 (1991 - \$4,382,000).

9. Pension Plans

The Company maintains a number of defined benefit plans for its employees. Pension costs related to current service are charged to income as services are rendered. Variations between fund experience and actuarial estimates as well as past service costs, if any, are amortized to income over the estimated average remaining service lives of the employee groups covered by the plans. Under Ontario pension regulations, the relocation of the Company's head office results in a partial wind-up of the pension plans. This partial wind-up involves a pension plan settlement and a pension plan curtailment for accounting purposes. The effect of the pension plan settlement and curtailment has been accounted for as a reduction of the provision for relocation and other expenses.

Pension expense for the year was \$3,669,000 (1991 - \$5,887,000). Based on the most recent actuarial valuation, the present value of the accrued pension benefit was \$114,500,000 (1991 - \$122,500,000). The market value of assets in the plans was \$114,400,000 (1991 - \$115,300,000).

10. Operating Lease Commitments

The Company and its subsidiaries have contractual obligations in respect of rental payments on leased premises and equipment. Minimum payments under these leases are as follows:

	(thousands of dollars)
1993	8,521
1994	7,275
1995	6,215
1996	5,975
1997	5,588
thereafter	41,619
	<hr/> 75,193 <hr/>

11. Contingent Liabilities

The Company and its subsidiaries are defendants in legal actions brought against them from time to time in connection with their operations. Such actions generally are resolved within amounts provided or policy limits. No significant additional loss from such actions is anticipated at this time.

12. Segmented Information

The principal activity of the Company and its subsidiaries is to provide life insurance, health insurance and pension programs on a participating and non-participating basis to individuals and groups, as well as reinsurance services to other companies.

Revenue, income (loss) after other items and identifiable assets by geographic region are as follows:

	1992	1991
	(thousands of dollars)	
Premium, investment and other income		
Canada	530,826	551,048
United States	1,038,526	1,305,996
International	70,290	67,820
	<u>1,639,642</u>	<u>1,924,864</u>
Income (loss) after other items		
Canada	(27,432)	(41,723)
United States	17,531	(106,189)
International	14,233	(6,364)
	<u>4,332</u>	<u>(154,276)</u>
Identifiable assets		
Canada	2,163,907	2,118,467
United States	5,960,973	5,913,601
International	213,497	231,096
	<u>8,338,377</u>	<u>8,263,164</u>

Auditors' and Appointed Actuary's Reports

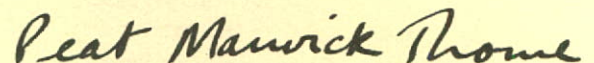
Auditors' Report

To the Policyholders and Shareholders of Crown Life Insurance Company;

We have audited the consolidated balance sheets of Crown Life Insurance Company as at December 31, 1992 and 1991 and the consolidated statements of operations, retained earnings (deficit), participating policyholders' account, changes in financial position and changes in net assets of segregated funds for the years 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 audits.

We conducted our audits 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.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1992 and 1991 and the results of its operations and the changes in its financial position for the years then ended, in accordance with generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada.



Peat Marwick Thorne
Chartered Accountants

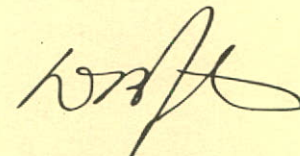
Regina, Canada
February 5, 1993

Appointed Actuary's Report

To the Policyholders and Shareholders of Crown Life Insurance Company;

I have valued the consolidated policy liabilities in Crown Life Insurance Company's consolidated balance sheets as at December 31, 1992 and 1991 and their increase in its consolidated statements of income for the years then ended, in accordance with accepted actuarial practice.

In my opinion, the valuations are appropriate and the consolidated financial statements fairly present their results.



D.R. Johnston
Fellow, Canadian Institute of Actuaries

Regina, Canada
February 5, 1993

Supplementary Financial Information

Years ended December 31	1992				1991	
Consolidated Summary of Premiums, New Business and Business in Force	Canada	United States	Inter- national	Reinsurance	Total	Total
	(millions of dollars)					
Individual life						
New business	640	520	7	2,004	3,171	4,315
In force at end of year	7,780	22,048	3,465	22,513	55,806	58,262
Premium income	76	268	50	86	480	484
Individual health						
New business	2	1	—	—	3	13
In force at end of year	13	2	—	1	16	44
Premium income	13	9	—	2	24	32
Individual annuity						
New business	8	—	—	—	8	10
In force at end of year	370	91	1	—	462	459
Premium income	13	1	—	—	14	15
Group life						
New business	430	163	—	982	1,575	770
In force at end of year	14,748	1,648	—	1,249	17,645	17,402
Premium income	36	8	—	22	66	63
Group health						
New business	26	—	—	7	33	20
In force at end of year	143	25	—	61	229	206
Premium income	114	25	—	79	218	244
Group annuity						
New business	9	44	—	—	53	252
In force at end of year	539	3,326	—	—	3,865	3,991
Premium income	86	48	—	—	134	346
Total						
Premium income	338	359	50	189	936	1,184
Percentage of total premiums	36.1	38.4	5.3	20.2	100.0	100.0

New business and business in force amounts are comprised of amounts written directly by the Company and amounts reinsured from other companies, net of reinsurance amounts retroceded to other companies, but do not reflect certain reinsurance agreements or discontinued operations. Premium income is included for all contracts.

New business and business in force are based on insurance amounts for life and annualized premiums for health. For annuities, new business is gross first year and single premium income and business in force is the actuarial liability held to provide for future policy payments. Group Health premium equivalents are used for administrative-service-only business.

Six-year Financial Summary

	1992	1991*	1990	1989	1988	1987
	(millions of dollars)					
Operating Results						
Revenue						
Premiums	936	1,184	1,734	1,659	1,663	1,981
Investment income	684	721	721	704	649	630
Other	19	20	17	7	8	24
	1,639	1,925	2,472	2,370	2,320	2,635
Policy benefits						
Expenses						
	294	305	335	344	334	386
Income before the undernoted	80	84	112	122	84	108
Subsidiary preferred share dividends	-	8	9	9	9	9
Income from continuing operations	80	76	103	113	75	99
before other items	80	76	103	113	75	99
Other items	76	231	39	24	5	14
Participating policyholders' income before dividends	48	16	45	39	38	35
Shareholders' income (loss) from continuing operations	(44)	(171)	19	50	32	50
Per Share (in dollars)						
Earnings (loss)	(19.59)	(86.66)	0.45	15.88	10.04	19.38
Dividends	-	-	6.40	6.40	6.40	6.40
Book value	57.53	68.85	148.67	155.28	148.36	171.93
Financial Position						
Assets						
General funds	8,338	8,263	8,184	7,794	7,382	7,377
Segregated funds	1,805	2,119	1,939	1,827	1,642	1,527
	10,143	10,382	10,123	9,621	9,024	8,904
Participating policyholders' account	38	44	60	73	91	122
Shareholders' equity	369	410	473	490	497	469
	407	454	533	563	588	591
New Business and Business in Force						
New business						
Life	4,746	5,085	7,237	11,209	13,208	17,476
Health	36	33	31	23	23	20
Annuity	61	262	950	880	990	1,258
In force						
Life	73,451	75,664	78,331	78,848	76,735	76,790
Health	245	250	289	253	166	148
Annuity	4,327	4,450	4,558	4,299	4,102	4,095

* Amounts previously reported for 1991 have been restated to reflect changes in accounting policies as a result of adopting generally accepted accounting principles (see note 2 to the consolidated financial statements). Results are not restated for 1990 and prior years.

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Toronto Group Sales Office

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Group Sales Representative
Toronto Group Sales Office

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Puerto Rico

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Toronto, Ontario

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§ President and
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♦♦ Cobble Hill, British Columbia

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London, England

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J.H. Devlin
R.C. Dowsett
J.J. Jodrey
F.H. Sherman
D.G. Willmot

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• Audit Committee Member
§ Investment Committee Member
† Human Resources Committee Member

♦ Conduct Review Committee Member
♦ Reorganization Committee Member

as of January 1, 1993

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Senior Vice-President
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Group and Reinsurance
Operations

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Senior Vice-President and
Chief Investment Officer

* **David R. Johnston**
Senior Vice-President
and Actuary

* **Arnold J. Shell**
Senior Vice-President
Individual and
Managed Assets Operations

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Corporate Secretary

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Vice-President
Information Services

* **Winston Ling**
Vice-President
Development

J. Alexander Lowden
Vice-President and
Chief Medical Director

* **Pamela J. MacIntyre**
Vice-President
Human Resources and
Administration

Charles C. McLeod
Vice-President
Corporate Actuarial

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Vice-President and
General Counsel

Jane S. Rounthwaite
Vice-President and
Project Manager
Corporate Relocation

* **Alan M. Rowe**
Vice-President, Finance

Brock L. Stackhouse
Vice-President
Corporate Actuarial

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Group Operations

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Reinsurance Operations

Gordon K. Dowsley
Vice-President
Financial Reinsurance

INDIVIDUAL

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Vice-President, Sales
Canada Individual Insurance

Barbara E. Laing
Vice-President
Information Systems
and Administration
Individual Insurance Operations

David J. McFarlane
Vice-President
Marketing and New Business
Individual Insurance Operations

Lee R. Slosberg
Vice-President
Sales and Marketing
U.S. Individual Insurance

American Crown Life Insurance Company

Richard L. Tyson
President

MANAGED ASSETS

John M. Mullis
Vice-President
Sales and Field Operations
U.S. Pensions

William B. Shupe
Vice-President
Sales and Marketing
Canada Pensions

UNITED KINGDOM

Crown Financial Management Limited

Herbert N. Beiles
Managing Director

INVESTMENT OPERATIONS

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Vice-President
Bonds

Nigel A.G. Howard
Vice-President
Asset Management Group

J.B. Purdy
Vice-President
Special Investments

Crown Life Investment Management Inc.

Brian A. Johnson
Chairman

William B. Shupe
President

John A. Grundy
Vice-President
Fixed Income

William R. Law
Vice-President, Equities

* Senior Management Team

as of February 25, 1993

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Facsimile: (306) 751-6001

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Management Inc.**

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**Crown America Life
Insurance Company**

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Suite 500
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Telephone: (703) 684-4130
Facsimile: (703) 684-7746

Stock Exchange Listings:

The Toronto Stock Exchange
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Transfer Agent:

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