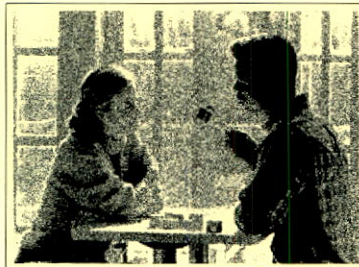
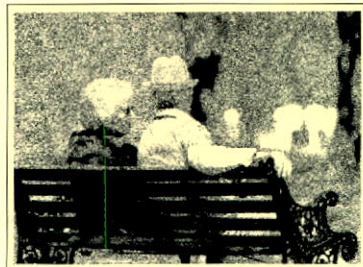


ANNUAL REPORT 1986



Aetna
CANADA

HOWARD ROSS LIBRARY
OF MANAGEMENT
MAY 27 1987
McGILL UNIVERSITY

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C O R P O R A T E P R O F I L E

Profiling 96 years of service in Canada

Ætna Canada is one of this country's foremost insurance and financial services organizations providing Canadians with products and services that meet their personal needs and enhance their financial security.

Headquartered in Toronto, Ætna Canada has more than 30 offices throughout Canada, and the support of dedicated staff and representatives through agents and brokers who sell our products and services. Ætna Canada's insurance services are

provided largely through The Excelsior Life Insurance Company. A well-established participant in the Canadian business scene, Excelsior Life was founded in Toronto, Ontario, in 1890. Since 1960, it has been owned by Ætna Life & Casualty in Hartford, Connecticut, a world-wide organization that is currently the largest investor-owned financial services organization in the United States, enabling Ætna Canada to be a participant in the global marketplace.

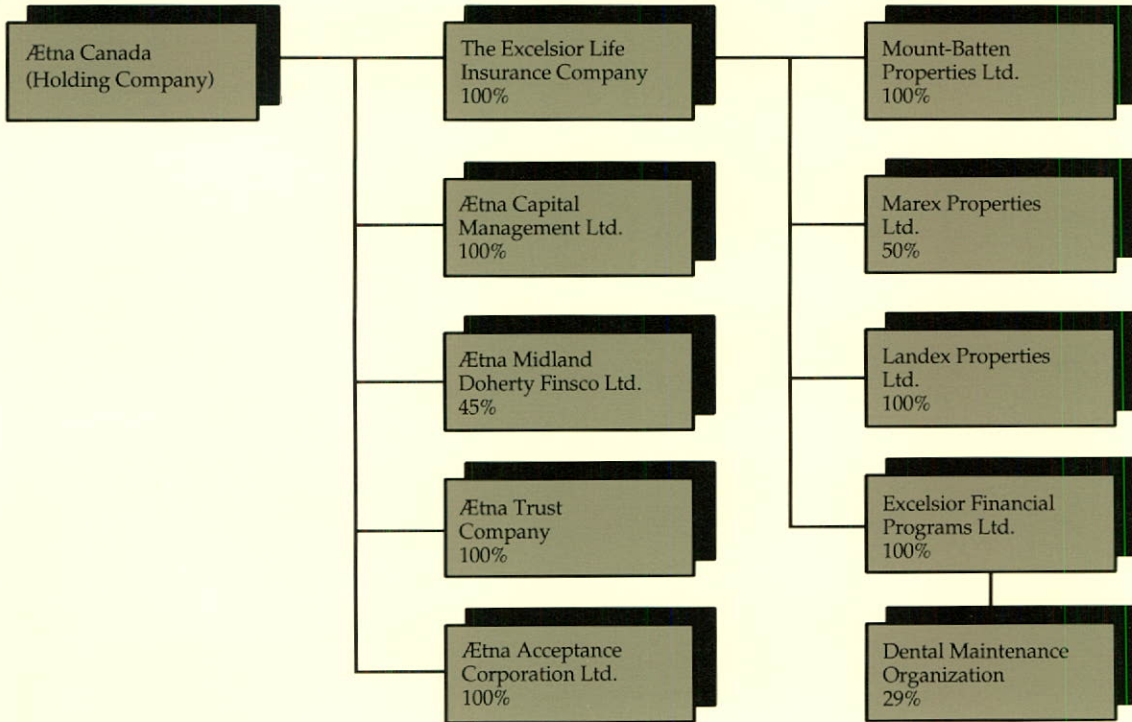
Over the years, Ætna Canada has diversified its financial

services, and developed products that have earned the company its reputation as an innovative and responsive organization. The group's broad scope of financial services ranges from: personal life and health insurance; annuities and RRSPs; group life, health and pensions; mutual funds; investment counselling; and trust services.

The overall structure of Ætna Canada reflects the organization's strength and its diversity: (See chart on following page)

C O R P O R A T E P R O F I L E

THE ÆTNA GROUP OF COMPANIES



C O R P O R A T E P R O F I L E

Ætna Canada

*-The holding company for Ætna's Canadian operations
-Operates a number of related financial service subsidiaries, including The Excelsior Life Insurance Company; Ætna Capital Management Limited; Ætna Acceptance Corporation Limited; Ætna Midland Doherty Finsco Limited; and Ætna Trust Company, as well as administrative and support functions*

The Excelsior Life Insurance Company

*-100 per cent owned by Ætna Canada
-Carries out the company's insurance operations including Life and Health as well as Group insurance*

- *Subsidiaries:*
- *Mount-Batten Properties Limited*
-100 per cent owned by Excelsior Life
-Responsible for real estate investments

- *Marex Properties Limited*
-50 per cent owned by Excelsior Life
-Joint venture
-Responsible for real estate investments

- *Landex Properties Ltd.*
-100 per cent owned by Excelsior Life
-Responsible for real estate investments

- *Excelsior Financial Programs Limited*
-100 per cent owned by Excelsior Life
-Provides administration services to Excelsior's group market
-Joint venture
-Dental Maintenance Organization (DMO) Inc.
-A joint venture with Tridont Health Care Inc. to provide prepaid dental programs

- *Ætna Capital Management Limited*
-100 per cent owned by Ætna Canada
-Investment counselling and money management for large pension clients

- *Ætna Acceptance Corporation Limited*
-100 per cent owned by Ætna Canada
-Provides capital financing and similar capital assistance for Ætna's agents, brokers and policyholders

- *Ætna Midland Doherty Finsco Limited*
-45 per cent owned by Ætna Canada
-Joint venture with Midland Doherty Financial Corporation
-Family of Mutual Funds including Money Market, Dividend, Fixed Income and Blue Chip Equity Funds

- *Ætna Trust Company*
-100 per cent owned by Ætna Canada
-Offers guaranteed investment products, investment advice and trustee services
-Currently operates in British Columbia

- *Ætna Casualty Company of Canada was a part of the Ætna Canada Group in 1986. Arrangements are being made in 1987 to sell this company.*

C O R P O R A T E R E P O R T

Towards tomorrow

In the midst of a dramatically changing financial services market that was not only varied, but often volatile, 1986 was a year of adjustment for Ætna Canada. The environment for financial services was characterized by intense competition and a saturated insurance market. To compete effectively within this market, the company has set new corporate directions.

In Canada, the financial services industry has long been distinguished by four specific sectors -- banking, insurance, trust and securities dealers, each with clearly defined roles and products. This is no longer true. Changing market conditions and customer needs have required organizations in each of these sectors to expand their products and services, creating a significant competitive overlap.

Insurance companies are selling annuities that compete with bank guaranteed investment certificates. The mortgage business was originally the province of the trust companies but now banks and insurance companies are significant participants as well. All the financial services organizations offer investment advice. It's no



Gordon N. Farquhar
Chairman

wonder the public is confused as to which organizations offer what products and services, and more important, which are best.

A difficult year

Within this complex environment, 1986 was a difficult year for Ætna Canada. Net income from Excelsior Life's insurance operations was \$5.7 million, down \$7.4 million from the year before. Revenues were up four per cent to \$556 million. The year-over-year decline in earnings was largely attributable to mortgage writedowns of \$9.3 million and unfavourable results in

both individual and group health lines. These losses were partially offset by gains of \$8.7 million on real estate sales. Total consolidated assets at year end increased to \$1.9 billion from \$1.7 billion in 1985.

Many of the problems Ætna Canada faced in 1986 occurred in Property and Casualty insurance operations. Poor results in Ontario auto insurance and increases in liabilities, for claims arising in earlier years, consumed an inordinate amount of management time and attention. Early in 1986 Ætna Canada initiated a plan formulated to combine

C O R P O R A T E R E P O R T



Michael A. Stephen
President & CEO

Individual Life, Health and Annuity operations and Property/Casualty operations into a single division to enhance multiple-line marketing and to reduce costs. This plan, however, neither reduced expenses nor controlled our Casualty losses as had been expected. Since Property and Casualty insurance constituted only about 10 per cent of Aetna Canada's total revenues, a strategic decision was made at year end to withdraw from the active marketing of Property and Casualty insurance in Canada and to arrange for the sale of Aetna Casualty Company of

Canada, its assets and business, to an acceptable purchaser. After completing such a sale and transferring the operations, the Aetna Canada organization will be able to focus its energy and resources on those markets and product lines in which it has achieved outstanding performance over the years. In addition, there will be greater opportunity to support and market our new ventures, investment management, mutual funds and the services of Aetna Trust.

Although the real estate market was basically strong in central Canada, all mortgage lenders encountered problems in the West brought on by the

severe economic setbacks in the energy and resource sectors. Aetna Canada, with its strong presence in the West, did not escape. Provision was made by year end for non-performing loans and programs are in place to enhance return. We expect that over time we will recover the values which have had to be written down.

On a positive note, December was the highest sales month ever recorded for Excelsior's Life Division, an achievement which has carried on into the first quarter of 1987. Group sales also strengthened in the fourth quarter and results for the full year exceeded planned sales. We are encouraged by this new momentum and we anticipate further gains in sales and revenues throughout the organization in 1987.

Some of the issues we face

The federal government's policy paper, entitled "New Directions for the Financial Sector", was tabled in the House of Commons by the Hon. Thomas Hockin, Minister of State for Finance, in December 1986. This statement proposed new ownership flexibility for financial institutions to participate through

C O R P O R A T E R E P O R T

subsidiaries and affiliated companies in more than one financial service sector. We welcome the broad thrust of the paper and we urge the federal government to move quickly to enact new legislation for the insurance industry that is long overdue.

Ætna Canada is also particularly pleased with the "white paper's" support for the agency system of distributing life insurance products. As the Canadian Life & Health Insurance Association has stated, "In not allowing other financial institutions to sell insurance products over-the-counter, the government has recognized the professionalism of the agent and the unique, effective agency system of distribution."

The paper does, however, raise serious questions for non-resident owned companies and for those institutions having commercial linkages. As stated previously, Ætna Canada will aggressively seek to assure it is not disadvantaged and is allowed to continue its growth and diversification.

As a non-resident owned Canadian company, Ætna Canada is deeply interested

in the current free-trade talks between our country and the United States. We fully support the joint statement of the Canadian and United States Insurance Associations, that "Companies on both sides of the border have been unrestricted, in many respects, in their operations in each other's countries and they are committed to ensuring that new barriers or impediments are not created and that existing impediments are removed."

It is important to recognize that life insurance is one of Canada's most important and dependable exports. Therefore, it is essential that financial services issues, including subsidiary activities, do not become a bargaining chip in these talks. Canadian-owned insurance companies already have open access to the large United States market. We strongly believe and aggressively contend that non-resident owned companies in Canada, such as Ætna, must share equal access with Canadian-owned insurers in the Canadian marketplace.

Consumer protection is another issue that has received a good deal of media

attention. The federal government has now introduced legislation that is designed to provide more effective supervision of financial institutions and greater protection for consumers. In this connection, and in order to enhance public confidence in and marketing of insurance products, the Life and the Property and Casualty industry associations have developed new plans that, when approved by government, will provide protection that is similar to deposit insurance. In addition, plans will provide for ongoing coverage for those insured by a life company.

And elsewhere

There were a number of other significant highlights for the company during the year. In July 1986, in its first public offering, Excelsior Life had a successful \$30 million preferred share issue which was listed on the Toronto Stock Exchange. The issue sold out immediately with excellent acceptance on the part of institutional investors.

Early in 1987, the company embarked on a joint venture with Tridont Health Care Inc. to administer and market

C O R P O R A T E R E P O R T

group dental programs on a prepaid basis. Commonly called dental capitation, this program provides dental coverage at a fixed premium.

As part of a program to improve returns on real estate investment, Excelsior Life increased its ownership position in Landex Properties Ltd. to 100 per cent by acquiring the interest of its joint-venture partner.

In 1986, Aetna Canada chartered a trust company in British Columbia which became operational in February 1987, following admission to membership in the Canada Deposit Insurance Corporation. Deposits are being received and mortgages underwritten in British Columbia with plans to expand in other areas of western Canada.

Looking ahead...

During 1986 a number of senior officer appointments and changes were made as Aetna Canada prepared for the future challenges: David J. Congram became Vice President and Corporate Actuary following the retirement of Donald F. Duncan in April 1986 after 25

years of dedicated service. Later in the year, James M. Greaney was appointed Vice President and Treasurer and William E. Fearn became Vice President, Finance. Effective January 1, 1987, Michael A. Stephen, who has been President since 1985, was appointed Chief Executive Officer succeeding Gordon N. Farquhar, who remains as Chairman.

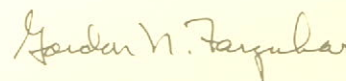
In the short term, the company's business plan will concentrate on streamlining the organization and eliminating non-essential activities. This includes vigorous expense controls and cost reductions in areas that do not contribute directly to earnings, while maintaining the levels of service our current and future customers expect to receive.

The overall focus is on growth in revenue, assets and shareholder equity. Growth is the key to providing the volume needed to enable Aetna Canada to lower unit costs and fund the increasingly high costs of technology.

Competitive forces mean that Aetna Canada will have to pursue external growth through diversification in

financial services and through suitable acquisitions, based on a market-driven strategy. To accomplish these objectives takes commitment, energy, performance, entrepreneurship and team spirit.

To ensure the success of our plans, we need the continued support of all our employees, agents and brokers throughout Canada. We want to thank all of these people for their dedication, help and hard work throughout the year. Recently, Aetna Canada began a customer service campaign called, "You make the difference". Our people do indeed make a difference. And by working together, particularly in difficult times, there is no doubt that Aetna Canada and its people will prosper.



Gordon N. Farquhar
Chairman



Michael A. Stephen
President & CEO

L I F E

Ætna Canada's Individual Life Insurance operation serves the individual and family market with a broad range of life insurance, disability income, RRSP and annuity products. This market has become increasingly competitive and in 1986 overall sales of these products were flat throughout the industry.

For the Life Division, earnings for 1986 were generally disappointing, although total divisional sales were down by only three per cent from 1985. However, there is cause for optimism for 1987 as the division closed the year with a dramatic burst of life production, reaching new heights in sales achievements. There has been a significant improvement in the retention of policies at

91.3 per cent which will be an important element for future profitability.

On the Health side, our strong individual income replacement products, which include Income Plus -- a leading edge current interest assumption product that is unique to the North American disability income market -- had a successful sales year. For 1986, we are pleased to report that individual disability inforce premiums rose 36 per cent. Ætna Canada expects to make further market penetration in the Individual Disability insurance market in 1987.

In the latter half of 1986, the Life Division introduced a new highly competitive term insurance product -- called

Value Term -- with special features and guarantees.

The year 1987 will see the continued improvement of Ætna Canada's competitive Life portfolio with several new product introductions, portfolio enhancements and improvements in services.

The new products, coupled with a stringent streamlining of the organization and a tightly focused marketing thrust directed towards the mid-income and professional markets, will enhance revenue growth and lead to improvements in profitability in fiscal 1987. Ætna is confident that the momentum started in the fourth quarter of 1986 will continue through 1987.

L I F E



Protecting your tomorrows is our first priority.

G R O U P

Ætna Canada's Group Division markets the company's group life and health insurance products as well as pensions to customers, which include large corporations, organizations and small businesses. For the most part, the division is pleased to report sound performance for 1986. The key to these positive results stems from a strong sales force and consistent marketing strategies that together helped the division exceed its revenue targets.

During 1986, the Group Division produced three major marketing directional studies, which have resulted in a marketing focus to achieve a multi-line thrust through the principal markets of large life and health groups and small businesses.

A notable achievement for Ætna Canada's Group

Division in 1986 was the decision by the Toronto-Dominion Bank to select it to underwrite a new medical and dental plan.

On the international front, a co-operative program between Ætna Canada and the Ætna/Generali companies worldwide resulted in significant strides in marketing Group benefits to multi-national companies. The division also established a new department to strengthen access to the North American and world markets through the worldwide Ætna organization.

In 1986, the Group Division's small business department developed the Ætna Money Purchase Accumulator (ÆMPA) for its benefits portfolio. ÆMPA is an administration support package for group RRSPs and similar products for all small organizations. ÆMPA has enabled the Group

Division to improve productivity and timeliness in reporting pension fund results.

Although the results for the year are generally good, Ætna Canada's Group Division felt the sharp increases in the number of long-term disability claims. This was a factor affecting results throughout the industry. For 1987 we plan to improve LTD results through rehabilitation and appropriate premium adjustments. The LTD block will also be stabilized through increased premium income from program enhancements.

Overall, the Group Division had a successful year in 1986. Much of the credit for the success came from the hard work of those men and women in the field and at head office. Their diligence, together with enhanced products and services and realistic plans, will ensure continued success in 1987.

GROUP



Providing you with solid advice in a changing world.

I N V E S T M E N T

The Investment Division is responsible for the investment and management of Ætna Canada's financial resources, working within the organization and through several subsidiaries in the Investment Management and Real Estate areas.

In central Canada the strong real estate market provided opportunities for some profitable sales, including 36 King Street, a building in downtown Toronto. In addition, a portion of a Halifax shopping centre was sold. Because of the strong market, suitable acquisitions were harder to come by. However, we have agreed to

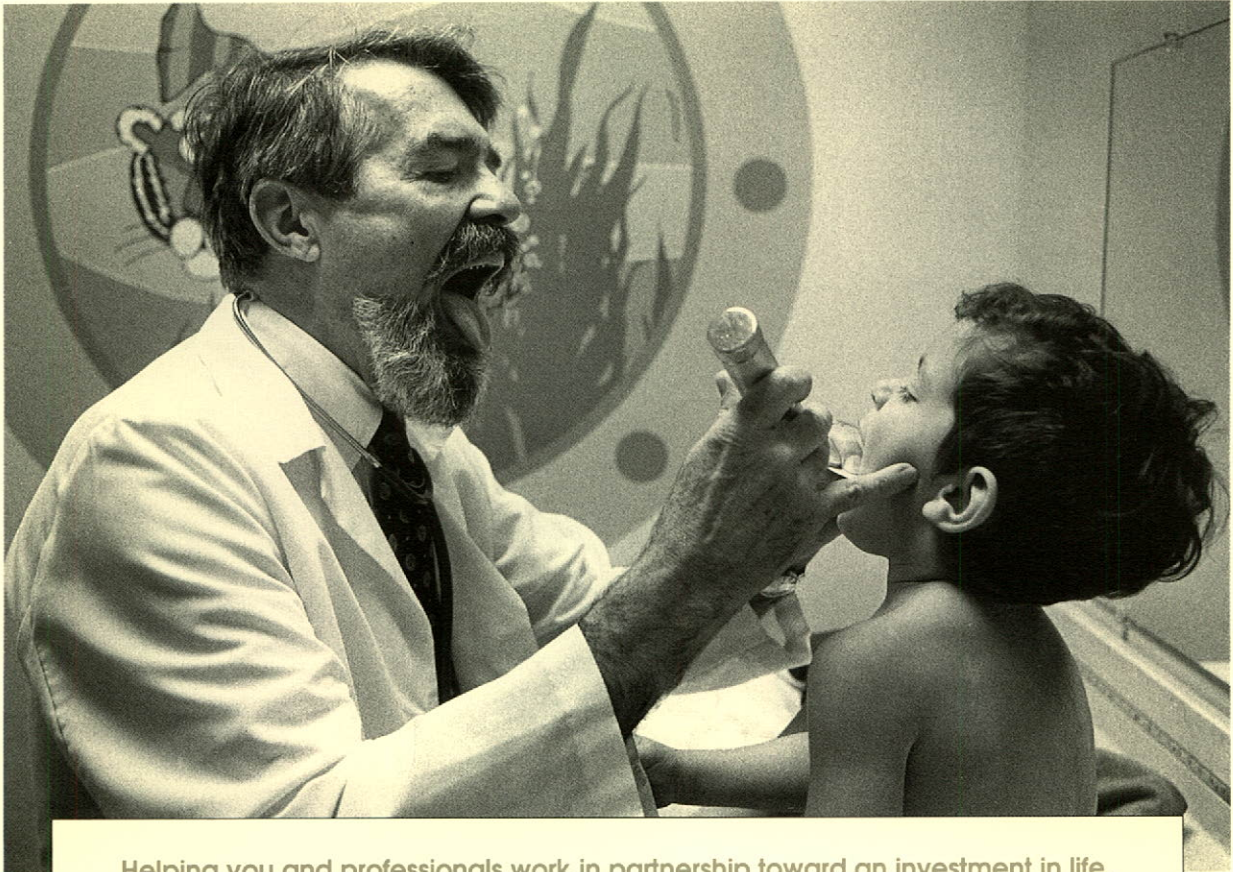
purchase an interest in College Plaza, in Edmonton, through Marex Properties.

During the year, we also acquired the remaining 50 per cent of the shares in our oldest real estate joint venture, Landex Properties. The Investment Division plans to return this company to profitability in 1987.

For 1987, we believe that the financial marketplace will continue to be volatile and that competition will increase as barriers between market participants are eliminated. Within this environment, the

Investment Division will continue strengthening the property management capability and its equity performance. We will also put plans in place to improve returns from our real estate investments. In addition, we intend to enter into more mortgage syndications with other institutional lenders. The division will also seek out and secure suitable investments which provide support for Ætna Canada's marketing by generating attractive rates of return for our clients.

INVESTMENT



Helping you and professionals work in partnership toward an investment in life.

FINANCIAL SERVICES

Ætna Capital Management Limited

Ætna Capital Management provides investment counselling and financial management services to large pension clients across Canada.

This wholly-owned subsidiary provides management advice for both the Money Market and Bond funds of AMD Finsco. It also provides cash management services to a variety of trusts, corporate clients and smaller financial institutions.

Ætna Capital Management's team of investment specialists currently has \$800 million under management which represents a growth of more than 60 per cent in the last two years.

For 1987, Ætna Capital Management is initiating a business expansion program that focuses on real estate, money market and special foreign equity funds. A renewed focus on equity management will enhance Ætna Capital's traditional strength in fixed income and real estate investment management. We are confident Ætna Capital will continue to improve

performance greatly in fiscal 1987.

Ætna Midland Doherty Finsco Limited

AMD Finsco, as it is commonly known, is a joint venture between Ætna Canada and Midland Doherty Corporation. AMD Finsco was established in 1984 to develop a range of financial products, which are to be distributed by the two principal shareholders as well as other organizations. Currently, there are six mutual funds available through both Ætna Canada and Midland Doherty. In 1986, AMD Finsco had a most successful year with a total fund growth of 92.3 per cent.

AMD Finsco has been able to develop and deliver mutual funds that are competitive in both quality and price because it has access to the substantial resources of two national companies. An important advantage of these particular funds, which can be sold for RRSPs on a monthly installment basis, is that the administration is handled in-house. This means a saving in administrative costs for clients.

The company has already widened its distribution network to include a chartered bank and three investment dealers, and is now equipped with a Canada-wide banking and communications network. For 1987, AMD Finsco is planning to widen its distribution network even further to include an array of smaller investment dealers. AMD Finsco will continue to improve its leading edge in information systems by adding client on-line access not offered by other mutual funds, such as a pre-authorized cheque facility for wholesale clients, remote entry of data for fund purchases and automatic deposits of subscriptions and redemptions for wholesale clients.

Ætna Trust Company

Ætna Trust is another wholly-owned subsidiary of Ætna Canada and is the most recent step in the company's plans for diversification. During 1986, plans for the establishment of Ætna Trust were completed and the company began operations in February 1987, upon obtaining membership in the Canada Deposit Insurance Corporation.

FINANCIAL SERVICES



Identifying your financial needs today for tomorrow.

Ætna Trust is based in Vancouver and is licensed to provide trust services within British Columbia. Ætna Trust plans to obtain licenses in other western provinces and to establish a presence in eastern Canada in the near future.

Initially, Ætna Trust will concentrate on deposit taking and mortgage lending. It will

also market GICs and self-administered RRSPs through an agency network. Initially, the majority of the mortgages will be generated in the Greater Vancouver area by networking with realtors and commercial products brokers.

In 1987, personal trust business will be added including self-administered RRSPs and

RRIFs, term-certain annuities, pension fund management, plus wills and estate management. In addition, the products of AMD Finsco will be marketed which will further ensure Ætna Trust's competitive edge in the marketplace. Ætna Trust Company will become a competitive and profitable arm of Ætna Canada.

DIRECTORS & OFFICERS

Board of Directors

Gordon N. Farquhar
Chairman
Ætna Canada
Toronto, Ontario

Michael A. Stephen
President & CEO
Ætna Canada
Toronto, Ontario

J. Allan Boyle
Director
The Toronto-Dominion
Bank
Toronto, Ontario

Fraser M. Fell, Q.C.
Chairman & CEO
Dome Mines Ltd.
Toronto, Ontario

Jean Lambert
Vice President &
Director
Geoffrion, Leclerc Inc.
Québec, Québec

H. Ian Macdonald
Director of
York International
Toronto, Ontario

H. Gordon MacNeill
President & CEO
Jannock Limited
Toronto, Ontario

H. Keith Morley
Chairman
Coscan Development
Corporation
Toronto, Ontario

Arne R. Nielsen
Chairman & CEO
Mobil Oil Canada Ltd.
Toronto, Ontario

J. Keith Reynolds
Partner
Alafin Consultants
Limited
Toronto, Ontario

Kenneth P. Veit
President
Ætna International Inc.
Ætna Life & Casualty
Hartford, Connecticut

Dean E. Wolcott
President
Personal Financial
Security Division
Ætna Life & Casualty
Hartford, Connecticut

Senior Executives

Gordon N. Farquhar
Chairman

Michael A. Stephen
President & CEO

David J. Congram
Vice President
Corporate Actuary

William E. Fearn
Vice President
Finance

James M. Greaney
Vice President &
Treasurer
Investment Division

Walter C. Jones
Vice President
Administration
Division

Robert A. Rasmussen
Vice President
Group Division

C. John Stubbs
Vice President
Law & Corporate
Development

Nick P. Villani
Vice President
Life Division

O F F I C E S

British Columbia

VANCOUVER
Life
Andre Hui, Manager

Group
Robert Sloane, Manager
Nancy Stirling, Manager
(Claims)

Managing General
Agencies:
The Eyford Copeland
Group Ltd.

PPI Financial Group
(Western) Ltd.
-Vancouver
-Burrard
New Money PPI Ins.
Agency Ltd.

VICTORIA
Life
Barry Walter, Manager

PPI Douglas
PPI Financial Group
(Western) Ltd. -Victoria

**CENTRAL B.C. &
YUKON**
Life
Glen Rea, Manager
Kelowna, Kamloops,
Prince George, Vernon
(sub-offices)

Alberta

**SOUTHERN ALBERTA
(CALGARY)**
Life
Ted Smith, General
Manager
Fred Silvestri,
Assistant General
Manager
Lethbridge (sub-office)

Group
Danielle Carr, Senior
Account Executive
Angela Polach, Manager
(Claims)

Managing General
Agencies:
Calgary Brokerage Life
Marketing Inc.

PPI Financial Group
(Western) Ltd. -Calgary

**NORTHERN ALBERTA
(EDMONTON)**
Life
John Willock, Manager

Group
Craig Reid, Manager

Managing General
Agencies:
A.I.B. Associated Ins.
Brokers Ltd.
Taisco Insurance
Agencies

PPI Financial Group
(Western) Ltd.-Edmonton

RED DEER
Managing General
Agencies:
Sovereign Investments
Ltd.

Saskatchewan

REGINA
PPI Financial Group
(Western) Ltd.-Regina

SASKATOON
Managing General
Agencies:
All-Sask Ins. & Annuity
Services Ltd.

PPI Financial Group
(Western) Ltd.-Saskatoon

Manitoba

WINNIPEG
Life
Brian Batsch, Manager

PPI Financial Group
(Western) Ltd.-Winnipeg

Nova Scotia

HALIFAX
Managing General
Agencies:
Foresight Financial
Security Inc.

Ontario

BARRIE
Managing General
Agencies:
Amnew Insurance Agency
Ltd.

BRANTFORD
Steve Brown,
Sales Manager

BURLINGTON
Managing General
Agencies:
Employee Benefit
Counselling
Ins. Agency Ltd.

CONCORD
Managing General
Agencies:
Masters Life Insurance
Agency Ltd.

ETOBICOKE
Bloordale Branch
Danny Huzar, Sales
Manager
Bill Myles, Sales Manager

KITCHENER
Managing General
Agencies:
Daniel Burjoski &
Associates Ins. Agency
Inc.

LONDON
Life
Tom Dawe, Manager

Managing General
Agencies:
Cinaber Ins. Agencies Ltd.
Dwight Goertz &
Associates Ins.
Agency Ltd.

MISSISSAUGA
Managing General
Agencies:
Mont Garrett &
Associates
Ins. Agency Ltd.
Abbe Ins. Brokers Ltd.

OSHAWA
Managing General
Agencies:
D.W. Kirner & Associates
Ins. Agency Ltd.

OTTAWA
Managing General
Agencies:
McCue Ins. Agency Ltd.

PERTH
Managing General
Agencies:
Balanced Planning Ins.
Agency Ltd.

SUDBURY
Managing General
Agencies:
Kindrat & Associates Ins.
Agency Ltd.

TORONTO
Life
Keith Pike, General
Manager
Bob Pugliese,
Assistant General
Manager
Jack Forbes,
Manager (Toronto-East)
George Hill, Manager
(Toronto North)

Group
Lou Castaldo, Manager-
Trusteed
Rick Osborn, Unit
Manager
Mary Dee-Smylie,
Manager (Claims)
Pat Bell, Manager
(Disability and
Rehabilitation Benefits)

OFFICES

Managing General
Agencies:
Cosburn Griffiths &
Brandham Insurance
Life Management
Financial Group
Insurance Agencies Ltd.
M. Sacks Insurance
Agency Inc. (sub-office-
PPI Eastern)
C. A. Pielsticker Insurance
Agency Ltd. (sub-office-
PPI Eastern)

PPI Financial Group
(Eastern) Ltd.
PPI Financial-Associates

WILLOWDALE
Irvin Pitch Insurance
Agency Ltd. (sub-office-
PPI Eastern)

WINDSOR
Life
Frank Giannobile,
Manager

TILBURY
Managing General
Agencies:
Great Southwestern Life
Ins. Agency Inc.

Québec

CHICOUTIMI
Managing General
Agencies:
D'Auteuil Gravel
Larouche Fradet Inc.

LAVAL
Managing General
Agencies:
Louis Langis &
Associés Inc.

MONTREAL
Life
Normand Lynch,
General Manager
Richard Charette,
Assistant General
Manager
Montreal Dorchester-
Life,
Lucien Ledoux, Manager

Group
Jean-Pierre Ringuet,
Manager
Christiane Beaulieu,
Manager (Claims)

Managing General
Agencies:
Hindley & Associates Inc.
J.P. Joannette & Assoc.
Inc.

P.A. Decelles & Associés
Inc.
R. Lafond & Associés Ltée
(sub-office-Decelles)
Montpetit, Quesnel &
Associés Inc.
Singer, Sobcuff &
Associates Inc.
Rosenthal Insurance
Agency Inc.

PPI Québec
Raymond Bourgeois &
Associés Inc. (sub-office-
PPI Québec)

QUÉBEC
Life
Irenée Gagnon, Manager

Managing General
Agencies:
J.P. Joannette & Assoc.
(Québec) Inc.
Les Assurances M.
Vandewinkel
et Assoc. Inc.

ST-LAMBERT
Managing General
Agencies:
Raoul Raymond Lavoie
Inc.

STE-THÉRÈSE
Agences d'Assurances
Ronald Clément Inc. (sub-
office-PPI Québec)

SHERBROOKE
Managing General
Agencies:
Assurances Yvon Rouleau
& Associés Inc.
Assurance Fortier,
Labonté, Giroux &
Associés Inc.

Ætna Trust Company

Arnold Miles-Pickup,
President,
2230 Park Place
666 Burrard Street
Vancouver, B. C.
V6C 2X8

Ætna Capital Management

James M. Greaney,
Chairman,
45 King Street West,
14th Floor
Toronto, Ontario
M5H 3T7

Ætna Midland Doherty Finsco Ltd.

Frank Santangeli,
President,
145 King Street West,
3rd Floor
Toronto, Ontario
M5H 3T7

To obtain a copy (or additional copies) of our financial statements for 1986,
please contact: Ætna Canada, Public Affairs Department, 145 King Street West,
5th Floor, Toronto, Ontario M5H 3T7 or telephone (416) 864-8199.

Pour recevoir un exemplaire français, veuillez en faire la demande à l'adresse
suivante: Affaires publiques, Ætna Canada, 5^e étage, 145, rue King Ouest,
Toronto (Ontario) M5H 3T7 ou composer le (416) 864-8199

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FINANCIAL STATEMENTS

OF

THE EXCELSIOR LIFE

INSURANCE COMPANY



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R E S P O N S I B I L I T Y

Responsibility for Financial Statements

Management, Board of Directors and Audit Committee

The financial statements of The Excelsior Life Insurance Company are the product of a number of processes that involve many participants.

These processes include the gathering together of financial data developed from the records of the Company's day-to-day business transactions. Informed judgments and estimates are used for those transactions that are not yet complete, or for which the ultimate effects cannot be precisely measured. The Company emphasizes the selection and training of personnel who are qualified to perform these functions. In addition, Company personnel are subject to rigorous standards of ethical conduct that are widely communicated throughout the organization.

The Company has also established internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are authorized, executed and recorded properly. Company personnel throughout the organization maintain and monitor these internal accounting controls on an ongoing basis. In addition, the Company's internal auditors systematically review and report upon the functioning of these controls with the right of full access to all Company personnel.

The Board of Directors of the Company has an Audit Committee composed solely of non-officer directors. The Committee meets periodically with the management, the internal auditors and the Company's independent auditors to review the work of each and to inquire of each as to their assessment of the performance of the others in their work relating to the financial statements.

The Valuation Actuary

The Valuation Actuary is appointed by the Board of Directors pursuant to the Canadian and British Insurance Companies Act. His responsibility is to carry out an annual valuation of the Company's policy liabilities for the purpose of issuing reports to the shareholders, policyholders and the Superintendent of Insurance. In performing this valuation, the actuary makes assumptions as to future rates of interest, mortality, claims experience, policy termination, inflation, reinsurance recoveries, expenses and other contingencies, taking into account the circumstances of the Company and the policies in force.

The Independent Auditors

The Independent Auditors are appointed by the shareholders and the policyholders pursuant to the Canadian and British Insurance Companies Act. Their responsibility is to report to the policyholders, shareholders, and the Superintendent of Insurance regarding the fairness of presentation of the Company's financial statements, in accordance with established criteria. The auditors fulfill this responsibility by carrying out an examination of these statements in accordance with generally accepted auditing standards.

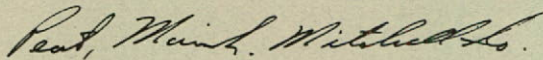
EXCELSIOR

Auditors' Report

To the shareholders and participating policyholders of The Excelsior Life Insurance Company:

We have examined the consolidated balance sheet of The Excelsior Life Insurance Company as at December 31, 1986 and the consolidated statements of operations and retained earnings and changes in financial position 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.

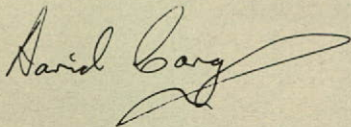
In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with the basis of accounting described in note 1 to the financial statements applied on a basis consistent with that of the preceding year as restated in the manner described in note 2.



Peat, Marwick, Mitchell & Co.
Chartered Accountants
Toronto, Canada
February 9, 1987

Actuary's Report

I have made the valuation of the actuarial liabilities of The Excelsior Life Insurance Company for its consolidated balance sheet at December 31, 1986 and its consolidated statement of operations for the year then ended. In my opinion, (i) the valuation conforms to the Recommendations for Insurance Company Financial Reporting of the Canadian Institute of Actuaries, (ii) the amount of the actuarial liabilities makes proper provision for the future payments under the company's policies, (iii) a proper charge on account of those liabilities has been made in the consolidated statement of operations and (iv) the amount of appropriated surplus for policies whose cash value exceeds the actuarial liability is proper.



David J. Congram, F.I.A., F.C.I.A., A.S.A.
Vice-President and Valuation Actuary
February 9, 1987

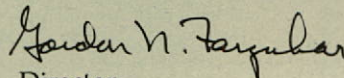
E X C E L S I O R

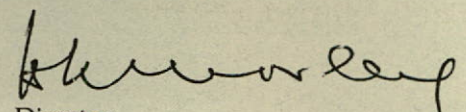
The Excelsior Life Insurance Company
 Consolidated Balance Sheet
 December 31, 1986

	1986	1985
		(000's)
Assets		
Cash and short term investments	\$ 153,700	\$ 104,000
Bonds	390,600	389,100
Equity securities	60,500	4,200
Mortgages	517,200	483,400
Real estate	136,300	125,000
Policy loans	24,300	25,600
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Invested assets	1,282,600	1,131,300
Investment income due and accrued	19,500	23,200
Other assets	77,400	56,600
Segregated funds	556,400	514,100
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	\$1,935,900	\$1,725,200
<hr/>		
Liabilities, Capital and Retained Earnings		
Liabilities		
Policy liabilities	\$1,039,200	\$ 927,600
Claims in course of settlement	27,700	25,500
Policyholders' funds left with company	17,400	16,400
Policyholders' dividends and refunds	8,700	5,500
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Actuarial liabilities	1,093,000	975,000
Mortgages payable	69,700	64,700
Other liabilities	73,600	57,400
Segregated funds	556,400	514,100
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	1,792,700	1,611,200
<hr/>		
Capital and Retained Earnings		
Capital stock	30,300	300
Retained earnings - participating policyholders	40,500	38,700
- shareholders	72,400	75,000
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	143,200	114,000
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	\$1,935,900	\$1,725,200

See accompanying notes

On behalf of the Board


 Director


 Director

E X C E L S I O R

The Excelsior Life Insurance Company
 Consolidated Statement of Operations and Retained Earnings
 For the year ended December 31, 1986

	1986	1985
	(000's)	
Revenue		
Premium income	\$376,900	\$363,300
Net investment income	172,300	161,000
Other income	6,600	6,600
	555,800	530,900
Benefits and expenses		
Payments to policyholders and beneficiaries	291,300	252,900
Amounts set aside for future payments	178,800	186,900
Operating expenses	74,900	72,600
Premium and other taxes	5,100	4,900
	550,100	517,300
Income before income taxes and extraordinary item	5,700	13,600
Income taxes	500	900
Net income before extraordinary item	5,200	12,700
Realization of prior years' income tax losses	500	400
Net income	\$ 5,700	\$ 13,100
Net income by fund		
Participating policyholders'		
Net income before dividends	\$ 6,500	\$ 6,000
Dividends	(4,700)	(4,200)
	1,800	1,800
Shareholders'		
Preferred	1,000	-
Common	2,900	11,300
	5,700	13,100
Dividends to shareholders		
Preferred	(1,000)	-
Common	(5,500)	(2,000)
Retained earnings, beginning of year	113,700	102,600
Retained earnings, end of year	\$112,900	\$113,700

See accompanying notes

E X C E L S I O R

The Excelsior Life Insurance Company
 Consolidated Statement of Changes in Financial Position
 For the year ended December 31, 1986

	1986	1985
		(000's)
Operations		
Net income before extraordinary item	\$ 5,200	\$ 12,700
Items not affecting cash		
Increase in policy liabilities	111,600	89,400
Depreciation	6,500	5,800
Other	11,600	(2,200)
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Dividends to shareholders	134,900 (6,500)	105,700 (2,000)
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	128,400	103,700
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Investment activities		
Bonds		
- purchases	(365,200)	(339,800)
- sales and maturities	364,700	314,300
Equity securities		
- purchases	(76,300)	(2,700)
- sales	21,200	9,700
Mortgages		
- purchases and advances	(106,600)	(119,300)
- sales and repayments	56,400	72,500
Real estate		
- purchases	(18,900)	(41,700)
- sales	13,300	17,700
Policy loans		
- advances	(5,400)	(4,800)
- repayments	6,500	6,300
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	(110,300)	(87,800)
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Financing and other activities		
Increase in capital stock	30,000	-
Increase in mortgages payable	5,000	3,800
Purchase of fixed assets	(2,400)	(1,900)
Other	(1,000)	900
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	31,600	2,800
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Net increase in cash and short term investments	49,700	18,700
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Cash and short term investments, beginning of year	104,000	85,300
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Cash and short term investments, end of year	\$ 153,700	\$ 104,000

See accompanying notes

EXCELSIOR

The Excelsior Life Insurance Company
Notes to Consolidated Financial Statements
For the year ended December 31, 1986

The Excelsior Life Insurance Company ('Excelsior') is incorporated under the laws of Canada and is registered under the Canadian and British Insurance Companies Act. Excelsior writes life and health insurance in all provinces and territories of Canada.

1. Summary of significant accounting policies

The accounting policies conform with those prescribed or permitted by the Canada Department of Insurance for the purpose of reporting to policyholders and shareholders. The significant policies are:

Basis of consolidation

The financial position, operating results and changes in the financial position of Excelsior's life and health branches, its wholly owned subsidiary companies and proportionate share of joint ventures are incorporated in these consolidated financial statements.

Valuation of invested assets

Bonds and mortgages not in default in the life branch are carried at amortized cost plus or minus the unamortized portion of gains and losses on sales. Such gains and losses are amortized over the remaining period to maturity (maximum 20 years). Bonds and mortgages not in default in the health branch are carried at amortized cost; gains and losses on sales are included in income when realized. Bonds and mortgages in default are carried at fair value.

Equity securities in the life branch are carried at cost plus or minus gains and losses on sales and amortization to market value on a 15% per annum declining balance basis. Equity securities in the health branch are carried at cost; gains and losses on sales are included in income when realized.

Real estate is carried at cost less accumulated depreciation. Depreciation is provided on the sinking fund basis over terms of 20 to 40 years. Gains and losses on sales are included in income when realized.

Policy loans are carried at their unpaid balance and are fully secured by the cash surrender values of the policies on which the respective loans are made.

Investments held for segregated funds are carried at market value.

Policy liabilities

Policy liabilities represent the amount required, together with future premiums and interest, to provide for future benefits arising from insurance and annuity contracts. Policy liabilities are calculated using interest, mortality, morbidity, expense and withdrawal assumptions appropriate for the policies in force. These assumptions are reviewed regularly, compared to emerging experience and changed when appropriate. Costs of acquiring policies to a maximum statutory amount are deferred, deducted from policy liabilities, and amortized over the policy premium paying period.

E X C E L S I O R

The Excelsior Life Insurance Company
Notes to Consolidated Financial Statements (continued)
For the year ended December 31, 1986

Income taxes

Income taxes for Excelsior are determined using the taxes payable method. This method does not take into account any deferral of income taxes resulting from timing differences in the measurement of income for income tax purposes. Income taxes for subsidiaries and joint ventures are determined on the tax deferral method.

Allocation of net income

The net income of the participating policyholders' fund is allocated to participating policyholders, except for a percentage (currently 10%) of that portion of the fund distributed during the year. The balance of net income accrues to shareholders.

2. Restatement of 1985 financial statements

The 1985 financial statements, originally prepared on a non-consolidated basis with investments in subsidiaries and joint ventures carried on the equity basis, have been restated on a consolidated basis to conform with the 1986 presentation. This change has no effect on reported net income or retained earnings. Certain other 1985 figures have been reclassified to conform with 1986 presentation.

3. Bonds, equity securities and mortgages

	1986		1985	
	Book Value	Market Value	Book Value	Market Value
	(000's)			
Bonds	\$390,600	\$409,500	\$389,100	\$398,300
Equity securities	\$ 60,500	\$ 67,300	\$ 4,200	\$ 12,700
Mortgages	\$517,200	\$540,900	\$483,400	\$496,000

Market Values are those prescribed by the Canada Department of Insurance.

Unamortized investment gains (losses) included in book values above:

	1986			1985	
	Bonds	Equity Securities	Mortgages (000's)	Total	Total
Balance, beginning of year	\$(6,700)	\$4,700	\$(2,500)	\$(4,500)	\$(10,100)
Gains (losses)	2,700	-	-	2,700	5,900
Amounts included in investment income	(300)	(700)	200	(800)	(300)
Balance, end of year	\$(4,300)	\$4,000	\$(2,300)	\$(2,600)	\$(4,500)

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The Excelsior Life Insurance Company
 Notes to Consolidated Financial Statements (continued)
 For the year ended December 31, 1986

4. Real estate

	1986	1985
		(000's)
Cost	\$140,100	\$129,100
Less accumulated depreciation	3,800	4,100
	\$136,300	\$125,000

5. Segregated funds

	1986	1985
		(000's)
Market value, beginning of year	\$514,100	\$411,300
Net deposits by contractholders and net investment income	67,200	97,900
Appreciation of investments	3,000	34,900
Payments to contractholders	(27,900)	(30,000)
Market value, end of year	\$556,400	\$514,100
Assets consist of:		
Bonds	\$152,000	\$125,200
Equity securities	148,300	129,500
Mortgages	162,700	166,000
Cash, short term investments and other assets	93,400	93,400
	\$556,400	\$514,100

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The Excelsior Life Insurance Company
 Notes to Consolidated Financial Statements (continued)
 For the year ended December 31, 1986

6. Capital stock

	1986	1985
	(000's)	
Cumulative Redeemable Retractable Preferred Shares		
Authorized:		
1,200,000 Series I preferred shares of \$25 par value		
Issued during the year for cash:		
1,200,000 shares	\$ 30,000	-
 Common shares		
Authorized:		
100,000 shares of \$5 par value		
Issued and outstanding:		
50,000 shares	\$ 250	\$ 250

The Series I preferred shares carry cumulative dividends of 7 5/8 % per annum to September 30, 1993 and 71% of average bank prime thereafter; are redeemable in whole or in part after September 30, 1991 at \$25.50 per share reducing to par after two years; and are retractable on September 30, 1993 at par.

7. Related party transactions

Excelsior's ultimate parent is Aetna Life and Casualty Company of Hartford, Connecticut, U.S.A.

During the year Excelsior acquired \$18,200,000 of mortgages at fair market value from an affiliated company.

In the normal course of business, Excelsior has transactions with related parties, including the provision of management, marketing, claims, accounting, computer and other similar services to certain related companies, at cost.

Excelsior operates a cash management pool whereby cash balances of affiliated companies and others are pooled for short term investment.

In the normal course of business, Excelsior has reinsurance agreements with affiliated companies. All premiums and recoveries are settled on a regular basis.

8. Requirements under the Canadian and British Insurance Companies Act

This act requires appropriation of capital and retained earnings for several items, primarily investment valuation, cash value deficiency and negative actuarial liabilities. Thus, for purposes of the act, capital and retained earnings are \$94,800,000 (1985 - \$61,400,000) of which \$35,300,000 (1985 - \$31,700,000) is allocated to participating policyholders.

E X C E L S I O R

The Excelsior Life Insurance Company
Notes to Consolidated Financial Statements (continued)
For the year ended December 31, 1986

9. Lease commitments

Minimum payments required under operating leases that have terms in excess of one year:

	(000's)
1987	\$ 7,500
1988	7,900
1989	8,000
1990	7,700
1991	7,600
Subsequent years	12,900
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	\$51,600

10. Pension plans

Excelsior has non-contributory pension plans covering substantially all employees and employee-agents. The actuarial valuation at January 1, 1986 indicated a surplus of \$4,300,000. The company made no contribution in the years ended December 31, 1986 and 1985.



