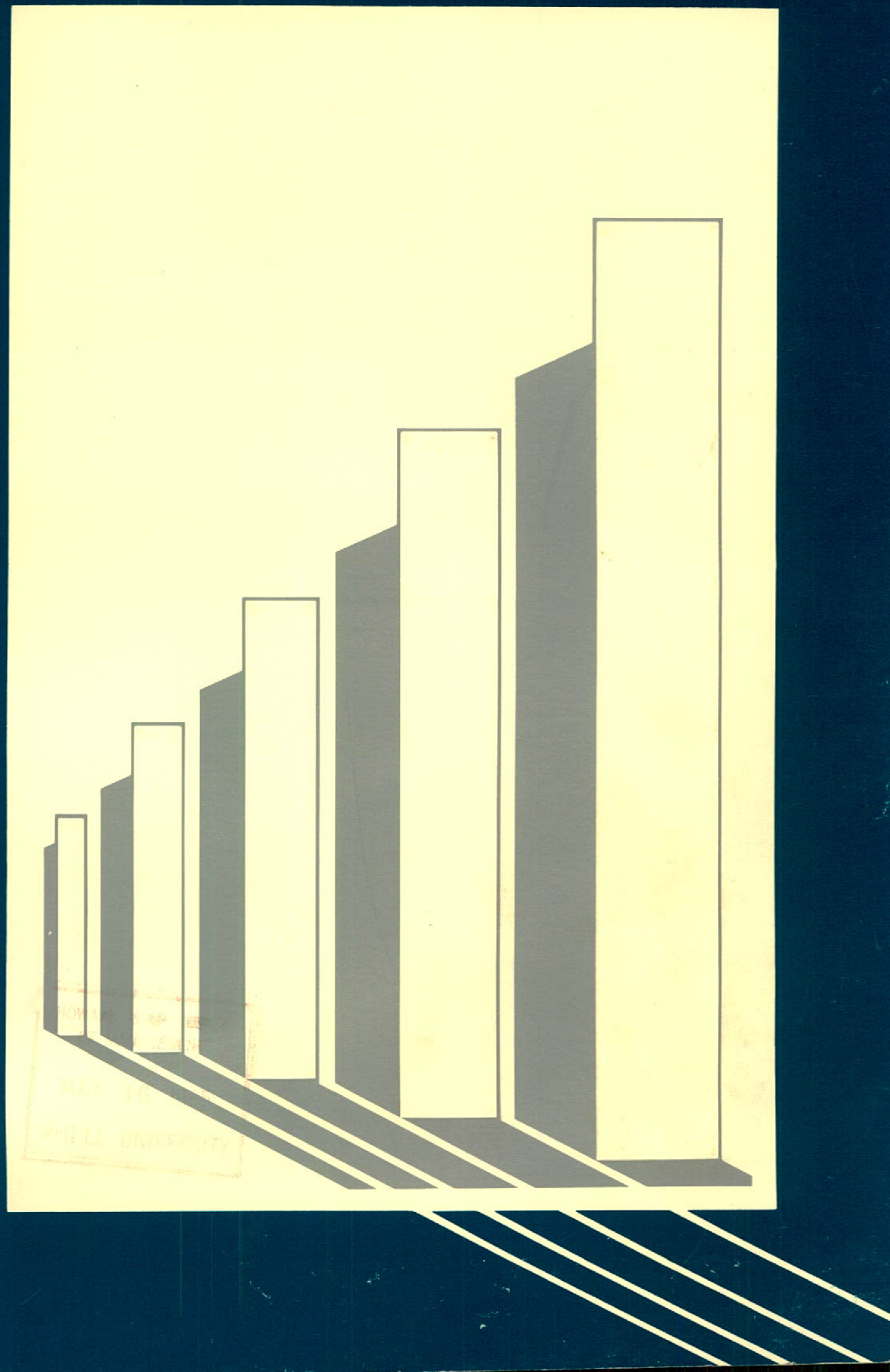
Ætna

CANADA

The Excelsior Life Insurance Company

Ætna Casualty Company of Canada



Annual Reports 1984

Ætna Canada

Ætna Canada is the marketing name for The Excelsior Life Insurance Company and Ætna Casualty Company of Canada. Under the Ætna Canada symbol, the two affiliated companies market a wide range of innovative personal and group Life, Health and Pension products, and personal and commercial Property and Casualty insurance.

The Excelsior Life Insurance Company is one of Canada's oldest—and most innovative—Life insurance operations. The company began business in Ontario in 1890 and by the turn of the century had opened Life insurance offices across Canada. In 1951, Excelsior Life entered the Group insurance field and early in 1961, began offering accident and sickness insurance to Canadians as part of its comprehensive and expanding range of insurance products. In 1972, Excelsior Life established a national brokerage operation to expand growth and service potential.

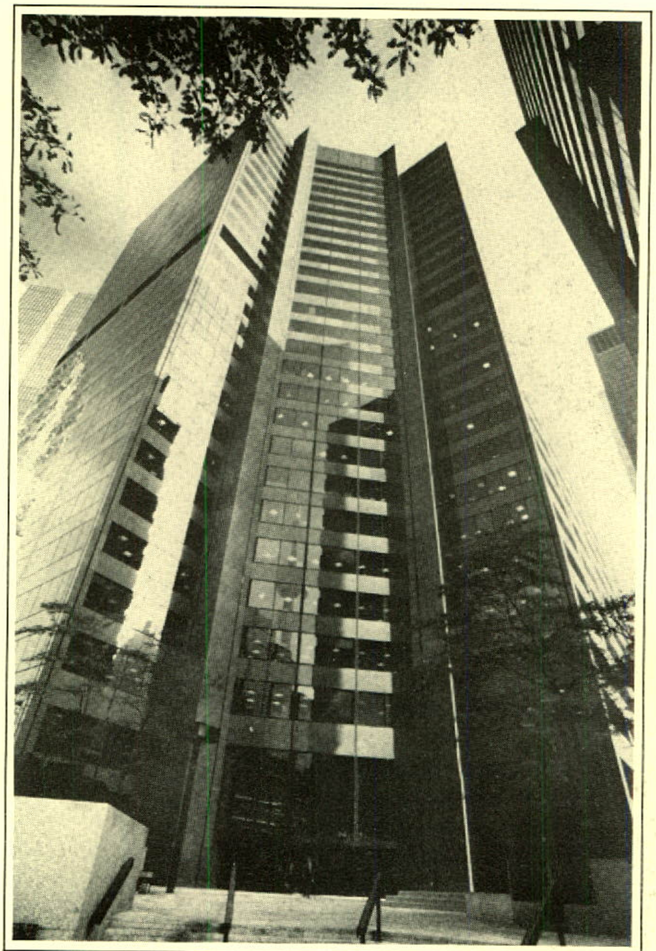
Ætna Casualty Company of Canada offers Canadians a full range of general insurance products. The company, as it is now named, was incorporated in 1970, but its roots go back to the Ætna Life Insurance Company which began business in Canada in 1853.

The two affiliated companies are both wholly-owned subsidiaries of Ætna Life & Casualty based in Hartford, Connecticut.

Over the years, Ætna Canada has grown substantially, due to the effort of its more than 3,000 employees, sales representatives and brokers located in over 80 offices and agencies across the country.

More than 200,000 Canadians have entrusted Ætna Canada with their individual life, health, annuity and property and casualty insurance. Many thousands more Canadians enjoy the advantages of Ætna Canada's Group Life, Health and Pension insurance services where they work.

Ætna Canada is a full service, multi-line financial organization in the Canadian marketplace committed to giving its customers a wide range of competitive products and services.



Aetna Canada Centre
Toronto, Ontario

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The Year in Review

Gordon N. Farquhar
President and
Chief Executive Officer

Michael A. Stephen
Executive Vice-President
and Chief Operating Officer

Report to Shareholders and Policyholders

Overall, 1984 was another year of strong growth for Ætna Canada. Improved economic conditions, including the lowest inflation rate since the early 70's, enhanced the environment for Ætna Canada's core business. The continued high unemployment rate, together with high real interest rates and deficit spending are matters of concern to all Canadians.

In addition to record sales and revenues in 1984, operating income for The Excelsior Life Insurance Company rose to $2.8 million, a $7.4 million improvement over the 1983 operating loss of $4.6 million. The substantial investment made in new technology and in new product marketing over the past few years has begun to have a positive impact on productivity. Total net income of $3.7 million in 1984 was down from the record level of $14.9 million in 1983. In that year, total net income included a large capital gain on the sale of the former Head Office buildings.

Sales in Excelsior Life of individual and group products increased by 10%, while total revenue climbed an impressive 27% to $515.6 million. At the same time, increases in operating expenses were held to 10%. Total life insurance in force rose by $1.4 billion in the year, to $15.1 billion at year end.

Ætna Casualty Company of Canada incurred a net operating loss of $1.5 million on an after-tax basis for 1984, compared to a break even position at the end of 1983. These unsatisfactory results reflect the continued and prolonged impact of inadequate premium levels in the property and casualty industry throughout Canada and the rest of North America.

The expense level in the Casualty Company is the major reason for the disappointing result in 1984. The investment being made in technology allows for the processing and administration of a much higher volume of business than we have been willing to underwrite at the inadequate rate levels which prevailed throughout the highly competitive market place last year. Nevertheless, written premium grew 21% in 1984 and this growth will show up in higher earned premiums in 1985. Due to a lag in earned premiums during the first quarter of 1984, Casualty Company revenues grew by only 4% in 1984, while general expenses were up 24%.

The Canadian financial services industry has entered a period of growth, transformation and turmoil. The recent rash of mergers and acquisitions bears witness to the redefinition and rationalization underway. The long awaited amendments to the laws and regulations governing the financial services industry will intensify the competition, and shake out all but the most efficient and effective players. While new federal legislation is not expected to be enacted until 1986 or later, Ætna Canada must prepare itself for the great challenges, and greater opportunities that are arising from new forms of competition.

In 1982 we initiated a long range corporate directional plan. The plan included a realistic assessment of our current position and identified the programs necessary to position us where we want to be as a major company in the emerging financial services industry.

In 1985 we will focus on the four elements of our directional plan essential for our growth, and profitability over the next few years.

'...attention and service to customers is the key to continued success'

First, we will focus our effort on achieving levels of earnings in the short term that compare favorably with the leading insurance industry and financial service competitors. The rate of business growth will also be maintained at a level above industry averages so as to build the base for future profits. Superior performance will continue to depend on a highly motivated and competent staff in head office and field.

In anticipation of significant long range growth we have invested heavily in technology. This makes it possible to process substantially more premium income without increasing staff and overhead. Improved systems and administration, coupled with premium growth, will allow for reduced unit costs.

The second long term directional emphasis is to move from the traditional product and distribution orientation that has characterized the insurance business toward a market orientation. The changing environment requires a high degree of market sensitivity and timely development of products which customers want and at competitive prices. Our market research is being increased and our marketing structure is being changed so as to permit more effective response in both product and distribution.

We are attempting to deal with identified market needs on several fronts: a range of individual life products for different interest rate environments, low cost preferred underwriting auto and homeowners policies, and customized group client claims payment services are some of the steps and programs underway.

The third major task for the year is the restructuring of our divisions so that they directly address the markets we have identified. This will help to sharpen concentration of marketing, sales and service for the individual and family market, for the small business market and for the selected large corporate markets which we currently serve through the existing Life, Group, Casualty and Pension Investment operations. There are opportunities also for achieving efficiencies and eliminating duplications through a coordinated corporate focus on the selected market segments.

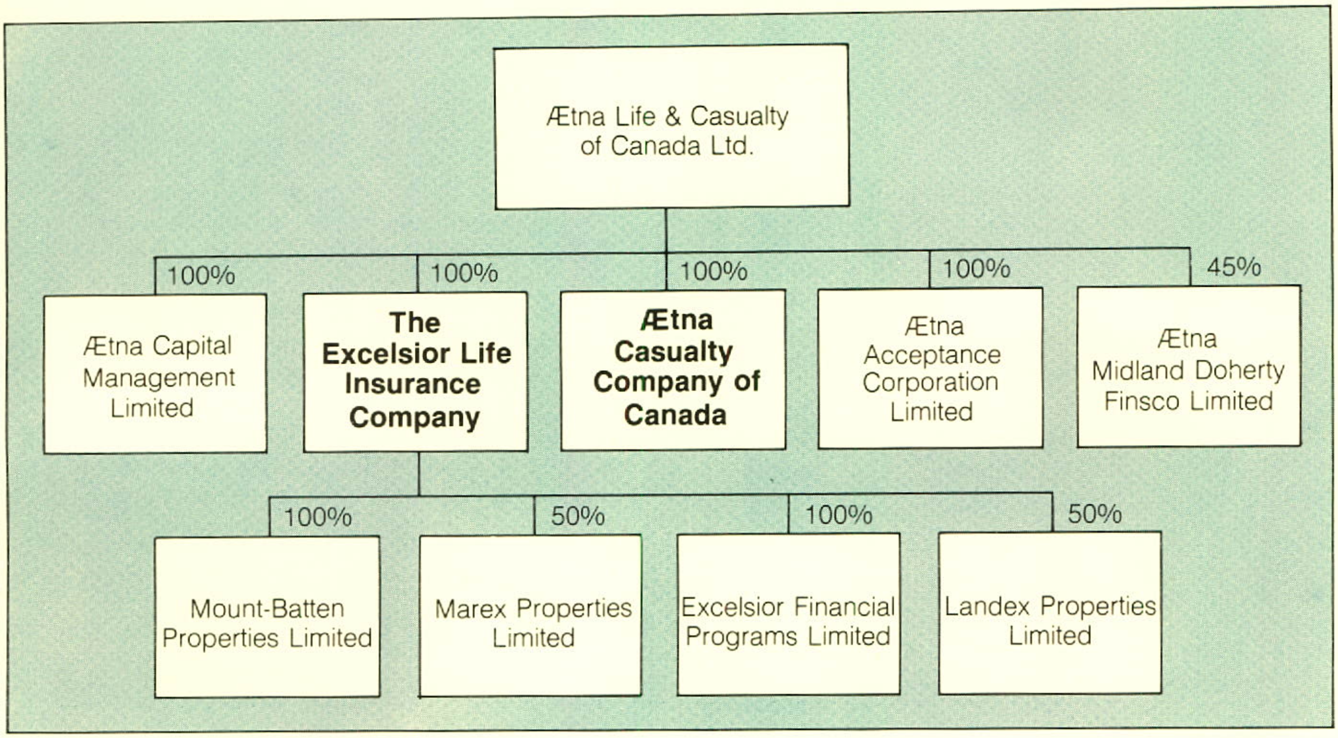
Our fourth thrust is inspired by the need for any business to be customer driven. Attention and service to customers is the key to continued success. We intend to expand our range of products and services in the financial service field where it is possible to do so. The shift in consumer interest from many traditional insurance products toward savings accumulation vehicles, such as mutual funds has been in evidence for several years. Our most recent response came at the beginning of 1985 with the introduction of a range of mutual funds through AMD Finsco, a joint venture company with Midland Doherty, a major securities firm with offices across Canada. We are in the process of developing additional financial products and services through subsidiaries of our holding company, Ætna Life & Casualty of Canada Ltd. Further opportunities will be explored to serve our clients more fully and we will actively support those changes in legislation and the regulatory process that are in the public interest.

The future will not be easy for Ætna Canada, or, indeed, the financial services industry. The strategies and programs detailed in our directional plan place heavy demands on the organization but they are both appropriate and essential. We are confident that, with the support of our excellent staff and capable sales force, Ætna Canada will realize the goal of growing as a profitable and effective supplier of insurance and related products and services which provide good value and which meet the needs of Canadian individuals, families and businesses.

Gordon N. Farquhar
President and
Chief Executive Officer

Michael A. Stephen
Executive Vice-President
and Chief
Operating Officer

Ætna Canada Organizational Chart



The Ætna Canada organization is growing and evolving in response to the dramatic changes now taking place in the financial services marketplace. Ætna Life & Casualty of Canada Ltd., shown at the top of the above chart, is the holding company for Ætna's Canadian Operations, and is the owner of a number of related financial service subsidiaries. The traditional insurance lines carried on through The Excelsior Life Insurance Company and Ætna Casualty Company of Canada still play the dominant role in our organization structure. But Ætna Midland Doherty Finsco Limited, our new joint venture with Midland Doherty Financial Corporation, has proved to be a significant step for Ætna Canada into the emerging field of "networking" with other members of the financial services industry. Ætna Capital Management Limited and Ætna Acceptance Corporation have given us the capacity to provide investment counselling and other related services to our clients, and financing and similar capital assistance to our agents. Excelsior Life is now playing a prominent role in the "administrative services only" (ASO) market through Excelsior Financial Programs. Investments in real estate through Excelsior's joint venture affiliates and subsidiaries, Landex, Marex and Mountbatten Properties now total more than $250 million.

Report on Operations

Earnings

Operating earnings for 1984 were $1.3 million for Excelsior Life and Ætna Casualty combined. Excelsior operating earnings improved from a $4.6 million loss in 1983 to $2.8 million profit. Ætna Casualty operating earnings deteriorated from the 1983 break even to a loss of $1.5 million.

Sales

Combined sales for Excelsior Life and Ætna Casualty grew 14% in 1984, for the best sales year ever.

The Life Division in particular showed very strong sales growth with an increase of 27% over 1983. The successful introduction of two new par Life products, Aextralife and Vanguard, increased par insurance sales to over nine times the 1983 levels. Non par insurance sales continue to reflect our loss of market leadership in New Money Life, as sales slipped below 1983 levels. The popular individual health portfolio introduced in 1983 continued to grow, showing an increase of 89% over 1983 sales. Individual single premium annuity enjoyed a sales increase of 129% over 1983 levels. The process of identifying specific investment opportunities permitted an aggressive stand in the marketplace in this product.

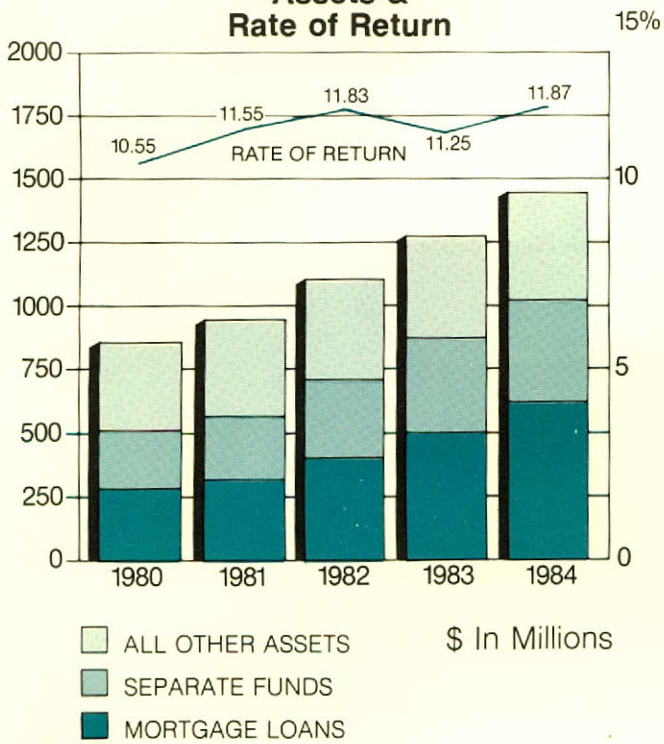
Group single premium annuities were also very strong, over twelve times 1983 levels. Group Life sales were also quite satisfactory, up 15% over 1983. While total Group sales did grow 6% overall, the inability to find a suitable pension real estate product kept Group pension sales below expectation. A suitable pension real estate product has been acquired for sale in 1985, and substantial increases in sales are expected this year.

Casualty Division sales growth was very good, with an overall increase of 21%. The focus was on personal lines, and the new successful preferred underwriting program has helped push personal auto sales up 63% over the 1983 levels. In addition to new sales growth, retention in personal lines grew nearly 20% from 1983 to 1984. Total Casualty policies in force grew 32% in 1984.

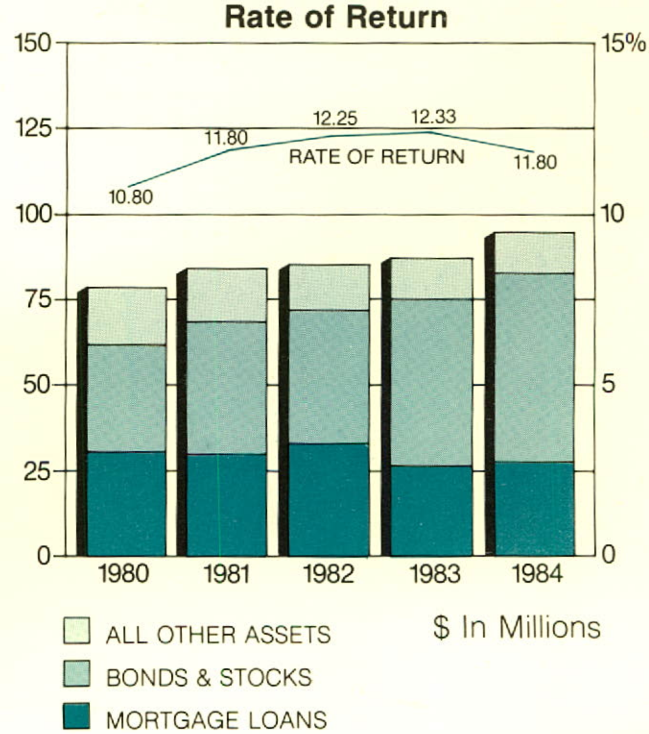
Distribution Systems

A major factor in Ætna Canada's sales growth is the expansion and increasing synergism in our distribution systems. The number of Life Brokers contracted with Excelsior grew 32% in 1984. Still, Life sales are split nearly evenly between Career and Brokerage arms — 46% career and 54% brokerage against 50% each in 1983. Career agents now have the

Excelsior Life Assets & Rate of Return



Ætna Casualty Assets & Rate of Return



opportunity to sell both life and casualty products, as part of the thrust to make buying insurance more convenient for our clients. At the end of 1984, 46 agents and eight managers held dual licenses. Dual licensing will be standard for all new agents in the future. In conjunction with Ætna Canada's joint venture with Midland Doherty, AMD Finsco, which was set up to sell a range of financial products, a significant number of agents will be licensed to sell mutual funds.

The number of casualty brokers through whom Casualty's products were offered, increased 24% in 1984. Emphasis was placed on appointments in areas where the company had previously been under-represented.

The Group Division, in addition to its regular team of experienced Group Representatives, can also call upon the services of our pension investment specialists for large pension clients. The Group Division is placing additional emphasis on the growing small and medium case market and is using the Life Division distribution systems to help sell products in this market. There is increased cooperation between the Group and Casualty areas as we develop casualty products on a group basis in response to requests from interested clients.

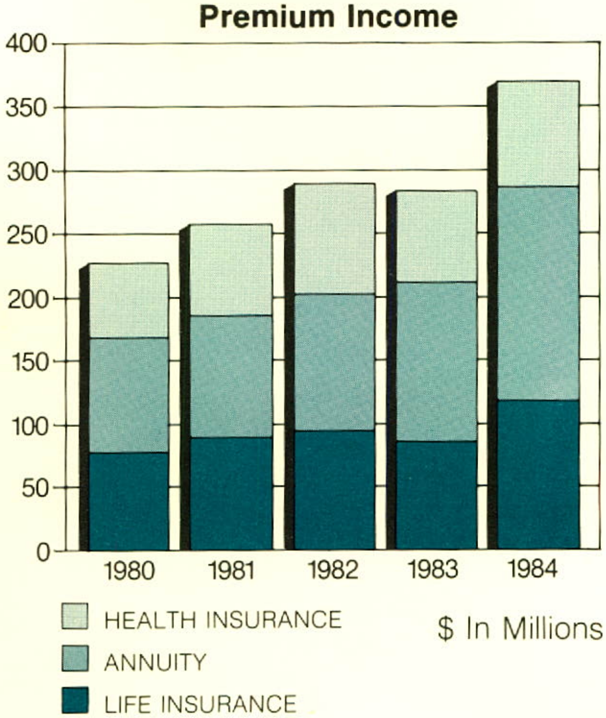
In addition to internal synergies and joint efforts such as AMD Finsco, we have arranged with Imperial Life to sell Excelsior's individual health portfolio through their distribution system. This is an example of a trend in financial services toward separation of the production and distribution functions.

Revenue

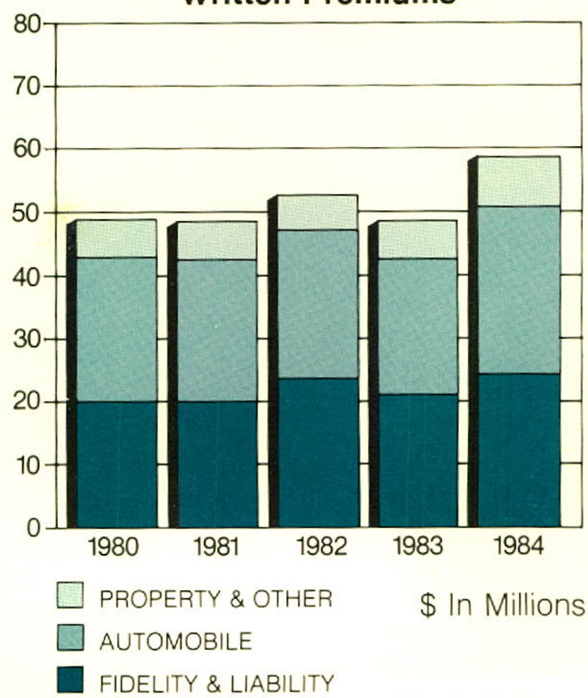
Total Excelsior revenue grew 27% in 1984 to $516 million. Of this amount, $371 million was statutory Premium Income, up 29% from 1983. Life Division premium increased by 38% over 1983 levels, Group statutory premium and deposits were up 26% over 1983. In keeping with the sales results, the greatest premium increase in the individual lines came from single premium annuities, which were up 129% over last year. Individual Health was up 79%. Small "Group Plus" Life and Health premiums grew by about two thirds. Group single premium annuities were 339% above 1983 premium levels. Group Health premium grew by one third, while Group Life grew 20%.

Excelsior Investment Income grew 21%, helped by the growth in invested assets resulting from the higher premium levels.

Excelsior Life Premium Income



Ætna Casualty Written Premiums



Ætna Casualty revenue growth has been less remarkable. Total revenue growth was 4%, with earned premium growing 3%, and investment income up 8%. The earned premium levels suffered from slow sales in 1983 and early 1984. The strong sales in the final three quarters of 1984 will help to improve the 1985 earned premium levels substantially.

Expenses

Compared to the total revenue growth of 27%, Excelsior operating expenses grew only 10%. Ætna Casualty general expense growth was 24%, in part due to considerable expenditures for overdue systems development.

Through programs such as rotation and placement of staff from non-essential to essential positions, the number of salaried staff has reduced by 52, 4% during 1984.

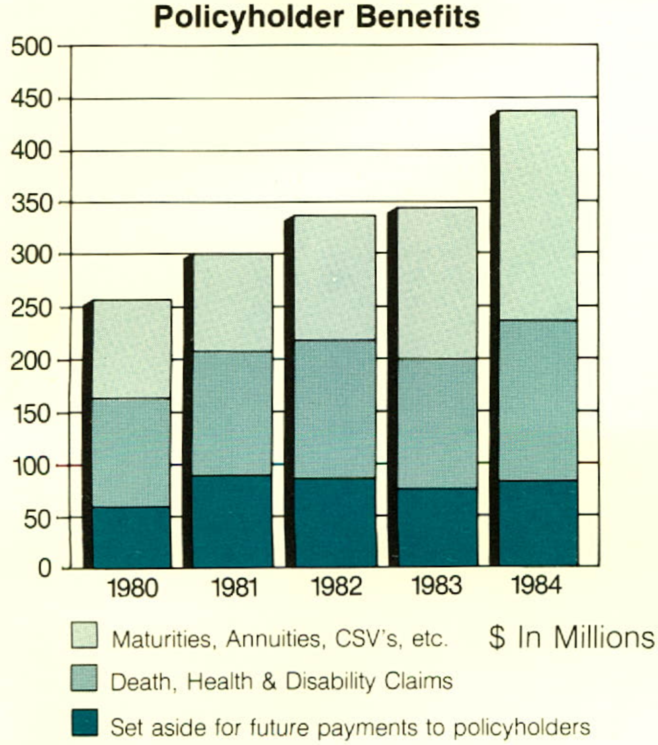
Computer systems development is costly. Thus new and modified systems are chosen for development on the basis of cost/benefit analysis. The plan is to continue to be among the leaders in systems technology, but to limit new development to those applications that will provide measurable improvement in productivity, service, management information and expense reductions.

Expense containment has a very high priority in the Ætna Canada organization, and 1984 expenses came in $1.1 million under budget for Excelsior Life and Ætna Casualty combined.

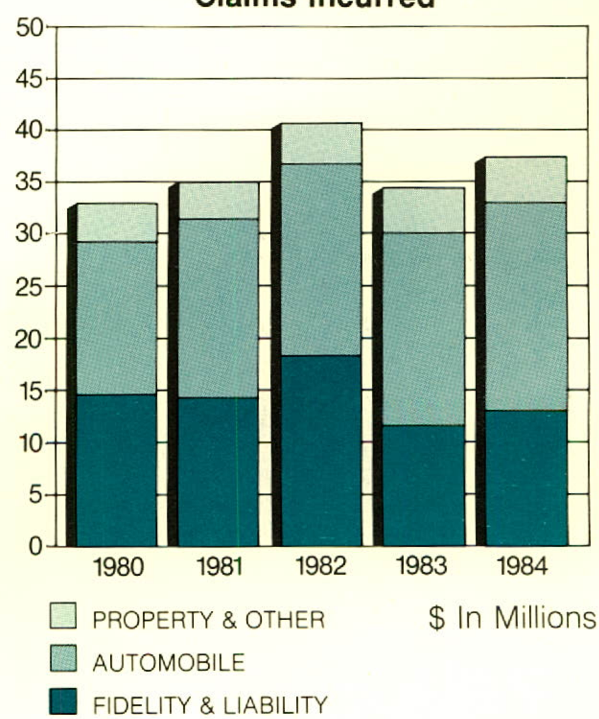
Summary

Our expanding distribution systems, innovative new product development, substantial 1984 sales and revenue growth, and effective expense control place Ætna Canada in a very good position for increased earnings and further revenue growth in 1985.

Excelsior Life Policyholder Benefits



Ætna Casualty Claims Incurred



The Excelsior Life Insurance Company

Balance Sheet

December 31, 1984
(with comparative figures for 1983)
(thousands of dollars)

Assets	**1984**	**1983**
Cash and short term investments	**$ 125,035**	$ 176,561
Bonds and other debt securities	**343,649**	175,055
Stocks	**14,950**	34,453
Mortgage loans	**435,095**	409,328
Investment real estate	**16,968**	21,423
Investment in subsidiaries	**10,787**	8,488
Policy loans	**27,257**	28,796
Investment income due and accrued	**24,798**	17,966
Other assets	**63,313**	51,353
Separate fund assets	**411,313**	370,625
	$1,473,165	$1,294,048

Liabilities and Capital and Retained Earnings		
Policy liabilities	**$ 838,182**	$ 695,984
Policy and contract claims	**25,146**	22,665
Policyholders' funds left with company	**15,863**	17,966
Policyholders' dividends and refunds	**8,593**	15,207
Actuarial liabilities	**887,784**	751,822
Mortgages on real estate	**3,673**	3,761
Other liabilities	**67,617**	66,781
Separate fund liabilities	**411,313**	370,625
	1,370,387	1,192,989
Capital and Retained Earnings		
Capital stock	**250**	250
Retained earnings-participating policyholders	**36,915**	34,954
-shareholders	**65,613**	65,855
	102,778	101,059
	$1,473,165	$1,294,048

See accompanying notes to financial statements.

On behalf of the Board

Director Gordon N. Farquhar

Director [illegible]

Statement of Net Income and Retained Earnings

For the year ended December 31, 1984
(with comparative figures for 1983)
(thousands of dollars)

	1984	1983
Revenue		
Premium income	**$371,139**	$287,437
Net investment income	**140,436**	116,143
Net income from subsidiaries	**4,054**	2,488
	515,629	406,068
Benefits and expenses		
Current and future benefits	**440,897**	345,521
Operating expenses	**67,291**	61,205
Premium and other taxes	**4,595**	3,942
	512,783	410,668
Net operating income (loss)	**2,846**	(4,600)
Net capital gains on the sale of real estate and health branch investments	**877**	18,440
Realization of benefit of subsidiaries' prior years' losses	**—**	1,053
Net income	**$ 3,723**	$ 14,893
Net income by fund		
Participating policyholders' net income		
Before dividends	**$ 5,647**	$ 9,891
Dividends to participating policyholders	**3,686**	3,518
Participating policyholders' net income	**1,961**	6,373
Shareholders' net income	**1,762**	8,520
Net income	**3,723**	14,893
Dividend to shareholders	**(2,004)**	(2,500)
Retained earnings, beginning of year	**100,809**	88,416
Retained earnings, end of year	**$102,528**	$100,809

See accompanying notes to financial statements.

Statement of Changes in Financial Position

For the year ended December 31, 1984
(with comparative figures for 1983)
(thousands of dollars)

	1984	1983
Funds provided		
From operations		
Net operating income (loss)	**$ 2,846**	$ (4,600)
Depreciation	**4,176**	2,986
Increase in actuarial liabilities	**142,198**	88,835
Other	**(5,309)**	(3,328)
Funds provided from operations	**143,911**	83,893
Principal repayments or sales proceeds of investments		
Bonds and other debt securities	**79,946**	77,846
Stocks	**55,945**	24,513
Investment real estate	**4,696**	14,949
Mortgage loans	**38,400**	80,170
Property occupied by the company	**—**	19,430
Other, net	**—**	16,634
Total funds provided	**322,898**	317,435
Funds applied		
New investments		
Bonds and other debt securities	**246,250**	96,636
Stocks	**30,949**	23,770
Investment real estate	**216**	12,513
Mortgage loans	**63,980**	93,830
Dividend to shareholders	**2,004**	2,500
Decrease in borrowed funds	**3,953**	2,303
Purchase of other assets	**5,368**	7,331
Other, net	**21,704**	—
Total funds applied	**374,424**	238,883
Net increase (decrease) in funds	**(51,526)**	78,552
Cash and short term investments, beginning of year	**176,561**	98,009
Cash and short term investments, end of year	**$125,035**	$176,561

See accompanying notes to financial statements.

Notes to Financial Statements

For the year ended December 31, 1984

The Excelsior Life Insurance Company is incorporated under the laws of Canada, is registered under the Canadian and British Insurance Companies Act and is a subsidiary of Ætna Life & Casualty of Canada Ltd. whose ultimate parent is Ætna Life and Casualty Company of Hartford, Connecticut, U.S.A. The Company is licensed to write life and accident and sickness insurance in all provinces and territories in Canada.

1. Summary of significant accounting policies:
The accounting policies of the company conform with the requirements for filing with the Department of Insurance of Canada. The significant policies are:

a) The financial statements combine the life and health insurance branches of the company. The life branch also combines the participating policyholders' and non-participating policyholders' funds.

b) Investments in bonds and other debt securities and mortgage loans are carried at amortized cost. The difference between the proceeds on the sale of a bond or mortgage loan in the life branch and its amortized cost is considered to be an adjustment of future portfolio yield, deferred on the balance sheet and amortized over the shorter of 20 years or the period to maturity of the security sold. The life branch unamortized balance of net deferred losses at December 31, 1984 was $15,716,000 (1983—$17,053,000). In the health branch the completed transaction basis is used.

c) Investments in stocks are carried at cost. Gains and losses on the sale of stock in the life branch during the year and the difference between cost and government market value of the life branch stocks at the end of the year are recognized in income through a formula that amortizes the realized and unrealized gains and losses on a 15% declining balance basis. Until December 31, 1983, the formula adjustment each year was 7% of the difference between adjusted book value and year-end market value of all equity securities. Effective for 1984, the formula adjustment became 15% of the difference. The effect of this change was to increase net income before taxes for 1984 by $527,000. The life branch unamortized balance of net deferred realized and unrealized gains at December 31, 1984 was $5,620,000 (1983—$2,700,000). Gains and losses in the health branch are recognized on the completed transaction basis.

d) Investment real estate is carried at cost less accumulated depreciation. Depreciation is provided on the sinking fund basis over terms of 20 to 40 years. Accumulated depreciation at December 31, 1984 was $1,196,000 (1983—$1,380,000).

e) Investments in subsidiary companies are carried on the equity basis.

f) 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.

g) Investments held for separate funds are carried at market value.

h) The policy liabilities represent the amount required, together with future premiums and interest, to provide for future benefits determined on insurance and annuity contracts. The 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 and amortized over the policy premium paying period. An amount of $24,986,000 (1983—$24,554,000) representing unamortized deferred costs has been deducted in arriving at the net policy liabilities.

i) Income taxes are determined using the taxes payable method.

j) Net income is allocated between the participating policyholders' fund and the shareholders' fund on the basis of a complex formula. Earnings considered applicable to shareholders include interest earned on the shareholders' fund, net earnings of the health branch, net earnings of the non-participating policyholders' fund and a percentage as restricted by law, currently 10%, of the net earnings of the participating policyholders' fund allocated for distribution.

Notes to Financial Statements

2. Bonds and other debt securities, stocks and mortgage loans:

(thousands of dollars)

	1984		1983	
	Cost or Amortized Cost	Government Market Value	Cost or Amortized Cost	Government Market Value
Bonds and other debt securities	$343,649	$343,266	$175,055	$176,848
Stocks - common	13,456	15,238	26,639	33,979
Stocks - preferred	1,494	1,468	7,814	8,595
Mortgage loans	435,095	427,390	409,328	398,151
	$793,694	$787,362	$618,836	$617,573

3. Separate fund assets:

(thousands of dollars)

	1984	1983
Market value of assets at beginning of year	$370,625	$309,936
Transfer from general funds being net deposits by contractholders and investment income less expenses	77,620	74,051
Realized and unrealized appreciation (depreciation) of investments	(2,667)	22,061
Payments to contractholders	(34,265)	(35,423)
Market value of assets at end of year	$411,313	$370,625

4. Related party transactions:
In the normal course of business, the company has various transactions with related parties. With the exception of cost sharing arrangements, the major balances at December 31, 1984 arising from transactions with these parties are:

(thousands of dollars)

	Wholly Owned Subsidiaries	Joint Venture Companies	Associated and Affiliated Companies
Short term notes receivable, interest bearing	—	$19,385	—
Short term notes receivable, non-interest bearing	$ 8,840	—	—
Mortgages receivable, interest bearing	—	$13,978	—
Intercompany receivables	$ 753	$ 128	$1,369
Long term notes payable, interest bearing	$ (9,800)	—	—
Loan guarantees to and secured by underlying assets	$ 1,854	$ 8,327	—

In addition to these transactions, the company operates a cash management pool whereby related company bank balances and short term investments are pooled for investment purposes. Detailed accounting and allocation procedures ensure that balances and interest earnings are properly reflected.

5. Lease commitments:
The following is a schedule by year of future minimum lease payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year.

Year ending December 31,	(thousands of dollars)
1985	$ 7,415
1986	7,247
1987	7,092
1988	7,488
1989	7,670
Later years	27,911
Total minimum payments required	$64,823

6. Capital stock:
   The company has authorized 250,000 redeemable preference shares with a par value of \$100 each and 100,000 common shares with a par value of \$5 each. At December 31, 1984, 50,000 common shares had been issued.

7. Requirements under the Canadian and British Insurance Companies Act:
   The Canadian and British Insurance Companies Act requires appropriations of retained earnings for several items, the major ones being for investment valuation, cash value deficiency and negative actuarial liabilities. As a result of the foregoing, capital and surplus for purposes of the Act is \$55,698,000 (1983—\$59,578,000) of which \$29,222,000 (1983—\$28,818,000) is applicable to the participating policyholders' fund.

8. Pension plans:
   The company has non-contributory pension plans covering substantially all employees and employee-agents. Pension expense for the year was \$1,830,000 (1983—\$2,068,000) and includes current service costs and amortization of unfunded past service costs.

9. Comparative figures:
   Certain changes have been made in the classification of the 1983 balances to conform with presentation in the current year.

Auditors' Report

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

We have examined the balance sheet of The Excelsior Life Insurance Company as at December 31, 1984 and the statements of net income 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 financial statements present fairly the financial position of the company as at December 31, 1984 and the results of its operations and 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 except for the required change in the formula for recognizing realized and unrealized gains on life branch stocks as disclosed in Note 1(c).

Peat, Marwick, Mitchell & Co.

Toronto, Canada
February 5, 1985

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Actuary's Report

I have made the valuation of the actuarial liabilities of The Excelsior Life Insurance Company for its balance sheet at December 31, 1984 and its statement of net income 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 statement of net income and (iv) the amount of appropriated surplus for policies whose cash value exceeds the actuarial liability is proper.

Donald Duncan

Donald F. Duncan, F.S.A., F.C.I.A.
Senior Vice-President and Valuation Actuary

February 5, 1985

Balance Sheet

December 31, 1984
(with comparative figures for 1983)
(thousands of dollars)

Assets	**1984**	**1983**
Cash and short term investments	**$24,514**	$21,679
Bonds and other debt securities	**31,006**	28,116
Mortgage loans	**12,692**	12,655
Premiums receivable from policyholders	**650**	—
Amounts due from agents	**11,409**	9,834
Amounts due from affiliates	**—**	3,400
Furniture and fixtures	**1,029**	817
Deferred acquisition expenses	**9,395**	7,719
Deferred income tax	**2,405**	1,196
Other assets	**2,610**	3,114
	$95,710	$88,530

Liabilities and Shareholders' Equity		
Insurance and other liabilities		
Unpaid claims	**$36,485**	$35,029
Unearned premiums	**32,176**	26,057
Amounts due to affiliates	**1,559**	—
Borrowed funds	**1,640**	1,703
Other liabilities	**2,153**	2,419
	74,013	65,208
Shareholders' equity		
Capital stock	**1,900**	1,900
Contributed surplus	**18,173**	18,173
Retained earnings	**1,624**	3,249
	21,697	23,322
	$95,710	$88,530

See accompanying notes to financial statements.

On behalf of the Board

Director Gordon N. Farquhar

Director

Statement of Net Income (Loss) and Retained Earnings

For the year ended December 31, 1984
(with comparative figures for 1983)
(thousands of dollars)

	1984	1983
Revenue		
Premiums earned	**$52,955**	$51,217
Net investment income	**7,387**	6,846
	60,342	58,063
Claims and expenses		
Claims incurred and adjustment expenses	**37,729**	34,521
Acquisition expenses	**16,304**	16,203
General expenses	**9,043**	7,308
	63,076	58,032
Operating income (loss) before income taxes	**(2,734)**	31
Deferred income tax provision (recovery)	**(1,236)**	15
Net operating income (loss)	**(1,498)**	16
Net realized capital gains (losses) (net of charges for applicable deferred taxes of $27, 1983—$769)	**(127)**	2,420
Net income (loss)	**(1,625)**	2,436
Retained earnings, beginning of year	**3,249**	813
Retained earnings, end of year	**$ 1,624**	$ 3,249

See accompanying notes to financial statements.

Ætna Casualty Company of Canada

Statement of Changes in Financial Position

For the year ended December 31, 1984
(with comparative figures for 1983)
(thousands of dollars)

	1984	1983
Funds provided		
From operations		
Net operating income (loss)	**$(1,498)**	$ 16
Depreciation	**138**	126
Increase (decrease) in unpaid claims and unearned premiums	**7,575**	(820)
Decrease (increase) in deferred acquisition expenses	**(1,676)**	518
Decrease (increase) in due from affiliates	**4,959**	4,372
Other	**(1,278)**	(108)
Funds provided from operations	**8,220**	4,104
Principal repayments or sale of investments		
Bonds and other debt securities	**5,105**	11,309
Stocks	**—**	131
Mortgage loans	**5,328**	3,338
Property occupied by the company	**—**	5,396
Increase in borrowed funds	**—**	452
Total funds provided	**18,653**	24,730
Funds applied		
New investments		
Bonds and other debt securities	**8,053**	15,167
Mortage loans	**5,365**	2,534
Decrease in borrowed funds	**63**	—
Other, net	**2,337**	1,097
Total funds applied	**15,818**	18,798
Net increase in funds	**2,835**	5,932
Cash and short term investments, beginning of year	**21,679**	15,747
Cash and short term investments, end of year	**$24,514**	$21,679

See accompanying notes to financial statements.

Notes to Financial Statements

For the year ended December 31, 1984

Ætna Casualty Company of Canada is incorporated in Canada under the Canadian and British Insurance Companies Act and is a subsidiary of Ætna Life & Casualty of Canada Ltd. whose ultimate parent is Ætna Life and Casualty Company of Hartford, Connecticut, U.S.A. The Company is licensed to write all classes of property and casualty insurance in Canada.

1. Summary of significant accounting policies:
The accounting policies of the company conform with those generally accepted in Canada and comply with the requirements for filing with the Department of Insurance of Canada. The significant policies are:

   a) Bonds and other debt securities and mortgages are shown in the balance sheet at amortized cost. Gains and losses on disposal of investments are determined on the completed transaction basis.

   b) Furniture and fixtures are carried at cost less accumulated depreciation. Depreciation is provided on furniture and fixtures on the diminishing balance basis at appropriate rates.

   c) Insurance premiums are included in income on a daily pro-rata basis over the life of the policies. Acquisition expenses related to unearned premiums, which expenses comprise commissions, premium taxes, and certain expenses of underwriting and issuing policies, are deferred and amortized to income over the periods in which premiums are earned. The method followed in determining the deferred acquisition expenses limits the amount of the deferral to its realizable value by giving consideration to investment income as well as losses and expenses expected to be incurred as the premiums are earned.

   d) The company provides for all costs of investigation and settlement of claims incurred prior to the balance sheet date. The provision, while believed to be adequate, is of necessity based on estimates.

   e) Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. Unearned premiums on business ceded and estimates of amounts recoverable from reinsurers on unpaid losses are recorded as deductions from unearned premiums and the provision for unpaid claims, respectively.

   f) Deferred income taxes or tax benefits are provided for timing differences between the income or loss reported for financial statement purposes and the income or loss reported for tax purposes. Such differences relate primarily to the deferral of acquisition expenses and unearned premiums.

2. Capital stock and contributed surplus:
The company has authorized 100,000 redeemable preferred shares with a par value of $100 each issued in series and 300,000 common shares with a par value of $50 each. At December 31, 1984, 38,000 common shares had been issued.

3. Requirements under the Canadian and British Insurance Companies Act:
The Act requires appropriation of retained earnings for several items, the major ones being assets not admitted, including the debit balance of deferred income tax, investment valuation reserve and a reserve for reinsurance ceded to unregistered companies. As a result of the foregoing, capital and surplus for purposes of the Act is $17,457,000 (1983—$20,700,000). The Act also limits dividends to shareholders. No dividend is permissable in 1985.

4. Pension plan:
The company has a non-contributory pension plan covering substantially all employees. Pension expense for the year was $167,000. (1983—$337,000).

5. Related party transactions:
The company, in the normal course of business, has various agreements with reinsurance companies. One of these is with The Ætna Casualty and Surety Company of Hartford, Connecticut, U.S.A., an affiliated company. All premiums and recoveries under this agreement, which from year to year may be substantial, are recorded in the intercompany account and are settled on a regular periodic basis. The company also participates in a cash management pool,

Notes to Financial Statements

operated by The Excelsior Life Insurance Company, whereby cash and short term investments are held in that company's name and pooled for investment purposes. Detailed accounting and allocation procedures ensure that balances and interest earnings are properly reflected.

6. Comparative figures:
Certain changes have been made in the classification of the 1983 balances to conform with presentation in the current year.

7. Reinsurance ceded:
The Company cedes reinsurance to other insurers in order to limit the maximum loss through the spreading of risks. Reinsurance ceded does not relieve the company of primary liability as the originating insurer as a contingnet liability exists in the event any reinsurer does not meet its obligations under the reinsurance agreements. The following table sets out the impact of reinsurance ceded on liabilities:

	(thousands of dollars)	
	1984	1983
Gross unpaid claims	$38,406	$36,280
Deduction for reinsurance ceded	1,921	1,251
Unpaid claims per balance sheet	$36,485	$35,029
Gross unearned premiums	$32,679	$26,685
Deduction for reinsurance ceded	503	628
Unearned premiums per balance sheet	$32,176	$26,057

The following table sets out the effect of reinsurance ceded on premiums earned and claims incurred:

	(thousands of dollars)	
	1984	1983
Net premiums earned reduced by	$ 5,620	$ 3,669
Claims incurred reduced by	$ 1,786	$ 793

continued . . . . .

continued . . . . .

8. Bonds and other debt securities, and mortgage loans:

	(thousands of dollars)			
	1984		1983	
	Cost or Amortized Cost	Government Market Value	Cost or Amortized Cost	Government Market Value
Bonds and other debt securities	$31,006	$30,833	$28,116	$28,514
Mortgage loans	12,692	12,755	12,655	12,509
	$43,698	$43,588	$40,771	$41,023

Ætna Casualty Company of Canada

Auditors' Report

To the shareholders of Ætna Casualty Company of Canada:

We have examined the balance sheet of Ætna Casualty Company of Canada as at December 31, 1984 and the statements of net income 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 financial statements present fairly the financial position of the company as at December 31, 1984 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Toronto, Canada
February 5, 1985

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Responsibility for Financial Statements

Management, Board of Directors and Audit Committee

The financial statements of The Excelsior Life Insurance Company and Ætna Casualty Company of Canada 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 Companies' 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 Companies emphasize 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 Companies have 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 on-going basis. In addition, the Companies' 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 Companies have an Audit Committee composed solely of non-officer directors. The Committee meets periodically with the management, the internal auditors and the Companies' 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 of The Excelsior Life Insurance Company 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, in accordance with established criteria, of the Company's financial statements. The auditors fulfill this responsibility by carrying out an examination, in accordance with generally accepted auditing standards, of these statements.

"1984 Highlights"

Phillip Holtby, President, Midland Doherty Financial Corporation, Frank Santangeli, President, Aetna-Midland Doherty Finsco Limited and Michael Stephen, Executive Vice President, Aetna Canada.

During 1984, Ætna Canada made the headlines of the Canadian business press with the unprecedented move to form a joint venture with Midland Doherty Financial Corporation. The creation of a new company, **Ætna Midland Doherty Finsco Limited,** in April 1984, represented the first ever successful joint venture between a life insurance company and an investment dealer in Canada.

Since that time, AMD Finsco has made further news with its introduction of new products and services. At the end of 1984, the Ætna Midland Doherty Monthly Income Funds, a series of open-end mutual funds, were developed and a prospectus filed with the Ontario Securities Commission for approval. In January, 1985, the funds were introduced for distribution by Midland Doherty representatives and appropriately licensed Ætna Canada agents. Within one month, over $24 million had been deposited in the Funds.

Development of these products is a first step in Ætna Canada's plans for a series of "networking" ventures with other companies designed to meet the growing demand of consumers for diversified financial services.

At a time when rising health care costs are of concern to all Canadians, Ætna Canada is proud to report its sponsorship of a national fitness program that was launched in May, 1984.

Known as **Ætna Canada Swimfit,** the program has been developed by the Canadian Amateur Swimming Association in cooperation with Fitness Canada, and offers a very new and untraditional approach to fitness training. Qualified instructors at swimming pool facilities across the country are participating in a fitness program that has been designed for men and women of all ages and at all water skill levels, from non-swimmers to advanced swimmers.

Ætna Canada made another significant move in 1984 with the creation of an investment counselling subsidiary, **Ætna Capital Management Limited** (originally incorporated as Ætnavestor Inc.) The new company was licenced by the Ontario Securities Commission in December of 1984 to carry on the business of investment counselling and portfolio management. Ætna Capital Management Limited is also able to advise pension clients who are seeking investment advice or portfolio management, but who do not wish to enter into an insurance contract.

Among the new company's clientele is Ætna Midland Doherty Finsco Ltd. Ætna Capital Management Limited currently manages two of three Ætna Midland Doherty Monthly Income Funds, a series of mutual funds introduced by AMD Finsco early in 1985.

There has been a growing trend within the financial services industry to share product "manufacturing" expertise with other companies. Ætna Canada and Imperial Life Assurance Co. became part of that trend when they entered into an agreement in October, 1984 which allows Imperial's agents to sell Ætna Canada's innovative health products.

This arrangement is expected to be of significant benefit to both companies. For Ætna Canada, the association will provide additional recognition for its quality health product line; for Imperial Life, the ability to include in its portfolio high quality, competitive products which have a proven record of success in the marketplace. While the concept of this new distribution channel is not new to the industry, it is an exciting first for Ætna Canada.

Two new consumer oriented whole life products were developed in 1984, **Ætralife** and **Vanguard.** Both are participating insurance plans which offer a new concept, Accountable Par, which defines the method of dividend calculation right in the contract.

One of the features of these two products is the "vanishing premium" option. The Ætralife plan may be paid up after as short a time as six years, the Vanguard after ten or eleven years. Both plans also offer the option to continue premium payments past the "vanishing premium" point without further evidence of insurability, resulting in annual increases to coverage from that point on.

These new products have been particularly successful for Ætna Canada, capturing more than 17% of the company's new individual insurance business during 1984.

In the field of group insurance, Ætna Canada introduced a new plan called **FIFTY PLUS** for groups of 50 to 200 lives. Building on the company's solid reputation for efficient administration of employee benefit plans, Ætna Canada designed this plan specifically for the small to mid-size market, currently the fastest growing group market in Canada. In developing the plan, every effort was made to streamline procedures and improve systems capabilities to meet the particular needs of this market.

FIFTY PLUS is a unique, full service Group Benefit Plan that is less complex and costly than large, customized group plans. Structured to give clients the flexibility of matching their insurance needs to their insurance budget, FIFTY PLUS offers a number of

features and options that are not available in other packaged group products.

Ætna Canada's homeowner's insurance product line underwent a number of changes during the year and was re-introduced as a new component in the company's PRO product series under the umbrella name, **PROTECT.** Although PROTECT is a new brand identity, the products themselves were originally developed in 1976. At the time they were considered 'state of the art', both in terms of design and their 'plain language' style, and since then have been continually upgraded and improved to ensure that they remain at the competitive edge.

The current program offers such features as a New Home Discount, guaranteed replacement cost on buildings, and the opportunity to obtain full homeowner's coverage on seasonal dwellings, an option offered by very few other insurers in Canada. PROTECT has been and continues to be a very successful program, providing high quality, price competitive coverage, which is flexible enough to meet the changing needs of today's market.

Gordon Farquhar (left) presents 'pacesetter' cheque to Michael Cornellisen, 1984 United Way Chairman at the Aetna Canada Blue Jays Night at Exhibition Stadium.

Ætna Canada once again demonstrated its commitment to the **United Way** with an in-house campaign which was more enthusiastic and successful than ever before. Corporate contributions to the campaign totalled over $80,000, and staff members added a further $50,000 through gifts, pledges and participation in Campaign Week activities.

Ætna Canada recognizes its responsibility to the communities it serves, and it is proud to support the valuable work of the United Way agencies in meeting the needs of those communities.

The Excelsior Life Insurance Company

Ætna Casualty Company of Canada

Board of Directors

BACK ROW: (left to right) H. Keith Morley, J. Donald Mingay, H. Gordon MacNeill, Arne R. Nielsen, Fraser M. Fell, Jean Lambert, Kenneth P. Veit.
FRONT ROW: (left to right) J. Allan Boyle, Gordon N. Farquhar, John M. Galvin. ABSENT: H. Ian MacDonald, J. Keith Reynolds.

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Calgary, Alberta	PPI Financial Group (Western) Ltd.
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