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CANADA

Annual Reports 1983

The Excelsior Life Insurance Company
Ætna Casualty Company of Canada

Ætna
CANADA

Ætna Canada Centre
145 King Street West
Toronto, Ontario
M5H 3T7

Contents

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 sell a wide range of innovative insurance products and financial services including personal life and health insurance, annuity products, group life, health and pension; 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 nine years later became affiliated with Ætna Life & Casualty of Hartford, Connecticut. Ætna now controls 100 per cent of the issued shares of Excelsior Life.

Early in 1961, Excelsior Life 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. Since that time, the company has grown substantially, due to the effort of its more than 2,000 employees, sales representatives and brokers located in over 50 offices and agencies across the country.

More than 147,000 Canadians have entrusted Excelsior Life with their annuity, personal life and health insurance. Many thousands more Canadians enjoy the advantages of Excelsior Life group life, health and pension insurance services where they work.

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.

In 1921, Ætna began to offer property-casualty insurance and now has over 75,000 individual and commercial policyholders in Canada covering automobile, property, commercial and casualty insurance needs.

In 1977, Ætna's general insurance business in Canada was transferred from the Canadian branch of The Ætna Casualty and Surety Company to Ætna Casualty Company of Canada—a full fledged domestic property-casualty insurance company.

The Excelsior Life Insurance Company and **Ætna Casualty Company of Canada** are now **Ætna Canada,** a multi-line insurance organization offering a broad range of insurance coverages and financial services across Canada.

Ætna Canada Centre, Toronto

The Year in Review—
President's Message

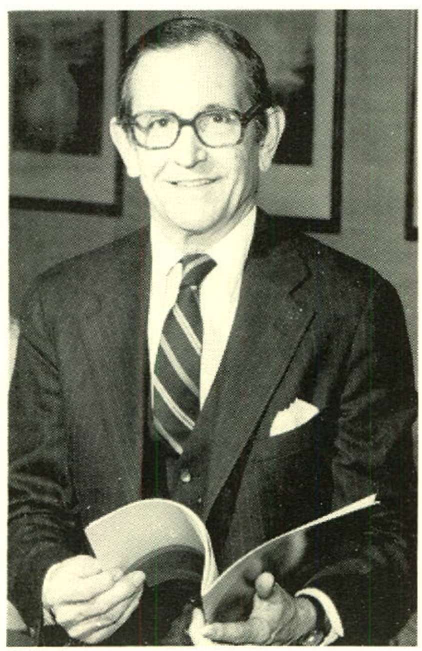
In 1983, Ætna Canada made substantial progress towards its main corporate objective: to provide cost effective insurance products and related services to Canadian families and businesses. Innovative new products were introduced to fill market needs. Productivity programs helped control expenses, and therefore client costs. To give our clients easier access to Ætna Canada products and services, distribution systems were expanded geographically, as well as through fresh approaches, such as the new "PRIME" life and casualty joint marketing programs, and the new Pension Investment Toronto Office.

The modest recovery in the Canadian economy, and the welcome decline in the inflation rate, contributed to an improved environment in which to operate and plan. On the other hand, continued high levels of unemployment, high real interest rates and rapidly accelerating transformation in the financial services field caused uncertainty for future markets. Hence, Ætna Canada redirected much of its planning effort and resource allocation from current operations toward future positioning of products and services in a market place offering consumers choices from both traditional and new sources of supply and distribution. Organizational and management changes were installed in order to facilitate new product development and to improve standards for customer service and response time. Additional investments were made in new technology and communications systems in support of marketing and administration.

In the changing environment of 1983, the financial results were quite positive for Ætna Casualty Company of Canada and The Excelsior Life Insurance Company, which together are the primary operating companies of Ætna Canada.

Following severe losses in 1982, corrective steps were taken in Ætna Casualty to return operations to profitability in 1983. Net operating income improved dramatically from a loss of $2.7 million in 1982 to break even in 1983; better than expected for a "turnaround" year. Moreover, with the addition of realized capital gains, (including the gain on the sale of the building formerly occupied at 36 Toronto Street), Ætna Casualty produced net income of $2.4 million for the 1983 year, compared to a net loss of $2.9 million in 1982.

For Excelsior Life, continued investment in new sales and new technology caused a net operating



G.N. Farquhar

loss of $4.6 million compared with a loss of $1.4 million in 1982; however, net capital gains on the sale of real estate and health fund investments reached $18.4 million. The sale of the head office building at 20 Toronto Street produced $15.6 million of this amount. These gains, together with the realization of tax benefits from Excelsior Life's real estate subsidiaries, raised net income for 1983 to $14.9 million. This compares with a net loss in 1982 of $0.8 million.

Retained earnings in Ætna Casualty grew to $3.2 million at the end of the year from $0.8 million at the end of 1982. Retained earnings in Excelsior Life grew from $88.4 million to $100.8 million at the end of 1983 after payment of $3.5 million in dividends to participating policyholders and $2.5 million in dividends to its shareholder, Ætna Life & Casualty Company of Canada. Assets in Excelsior Life increased significantly in 1983 to just under $1.3 billion, a growth rate of 16%. Thus, both companies ended the year in excellent financial condition, with a strong capital base to support future profitable growth.

Premium income for Ætna Casualty increased slightly in 1983 to $51.2 million and net investment income was also up slightly. With a healthy reduction in the loss ratio to levels better than the industry, Ætna Casualty has been able to set in motion several important underwriting and marketing programs to resume growth in both sales and premium income for 1984 and 1985.

Premium income, in Excelsior Life, as reported in the statements, decreased slightly from $293.0 million in 1982 to $287.4 million in 1983. This reduction was due largely to the transfer of one large and several small accounts from an insured basis to a service contract basis with an Excelsior Life subsidiary, Excelsior Financial Programs Ltd. If the transactions handled by EFP were included on an "equivalent premium basis" for both years, the resulting total would reflect the real growth that occurred in 1983 of about 6%. Investment income and net income from subsidiaries grew 8% and brought total Excelsior Life revenues (not counting equivalent premiums) to $406.1 million, slightly ahead of 1982.

New sales of both individual and group life insurance exceeded $2.8 billion and total life insurance in force rose over $1 billion to $13.7 billion at year end. Operating expense growth was limited in 1983 to less than 4%, well under budget.

No report on 1983 would be complete without reference to the highly successful move of Ætna Canada's Head Office from Toronto Street to the excellent Ætna Canada Centre building at 145 King Street West at University Avenue. Our new location is in the heart of Toronto's financial district, with improved access to transportation and other downtown facilities. The actual move extended over half of the year and was accomplished within budget and with minimum disruption in service to our customers. This was made possible by the very fine co-operation of the entire head office staff and by the hard work and careful planning of the Administration Division. Now the entire staff, previously spread among three buildings, is together in one location. The move provided the opportunity to introduce more efficient floor plans and to install practical and attractive modular furniture as well as an impressive new data centre. The Staff Development Centre is in place and a new cafeteria for Ætna Canada employees will be completed on the concourse level this year. The Toronto Casualty Branch Office and the Toronto Group Sales Office will also move in shortly. Ætna Canada Centre was officially opened on December 8, 1983.

In addition to being well received by everyone working and visiting here, the efficient use of space at Ætna Canada Centre supports a rigorous program undertaken by Ætna Canada to improve productivity. As part of this program, Ætna Canada has invested heavily in central computer facilities, computer terminals, personal computers, word processors and new operating systems. In addition to automating much of the work load, plus information storage and retrieval, these tools have allowed us to introduce an effective and widespread electronic mail system. Substantial time savings in accounting, actuarial and other areas have been achieved and we are currently extending electronic facilities and networks that will provide a wide range of services to field offices.

Donald N. Byers, elected to the Board of Directors in 1970 and James W. Westaway, elected in 1969, did not stand for re-election in 1983 and thus retired from our Board in May. Each served with distinction and made valuable contributions to the progress of the companies. Mr. Byers effectively chaired committees of the Board, most recently the Audit Committee, and was a loyal and active supporter of the companies' interests, particularly in Montreal where he has practiced law for many years. Mr. Westaway joined the Ætna organization as a group representative in 1934 and after a successful career in directing group marketing operations throughout Canada, was named Executive Vice-President of Excelsior Life in 1968, President in 1969 and Chairman from 1974 until 1977, when he retired from active service as an officer of both Excelsior Life and Ætna Casualty Company of Canada. His energy, enthusiasm, marketing skills and outstanding leadership produced important innovations and strong growth for the companies throughout his long and distinguished career. His quick wit and wise counsel will be sorely missed.

H. Ian Macdonald, President of York University and J. Keith Reynolds, a member of Alafin Consultants Limited were elected to the Board of Directors at the Annual Meeting in May of 1983. Each has had a wide range of experience in the government, business and community life of Ontario and Canada.

The financial environment is changing rapidly and Ætna Canada is committed to a growing role in the provision of insurance and related financial services to individuals, families and businesses throughout Canada. We also see a wider role in the future for the capable group of agents and brokers — over 2500 — who represent our two insurance companies and who make the delivery of products and services to the ultimate consumer and beneficiary a reality. To broaden their opportunities, along with those of the corporation and its staff, Ætna Canada will seek to expand into related financial services fields. We will support initiatives to assure full opportunity to compete on an equal basis with other financial intermediaries. The future structure of our industry is yet to be defined. It will be influenced by government and by a wide variety of interested participants. In the final analysis, the needs of the consumer will determine the shape of the market place. I am confident that with the continued dedication to performance and excellence that has been demonstrated by those who represent us and by our staff, Ætna Canada will meet the challenge of becoming an even stronger force in the future market place.

Gordon N. Farquhar

Gordon N. Farquhar
President and Chief Executive Officer

February 15, 1984

Executive Vice-President's Message

In 1983, we witnessed continued rapid change within our industry. As a result, a few main themes emerged as critical to our continued profitable growth. We must understand our customers and the pressures of the market place. We must respond quickly to our customers' needs. Efforts to control and reduce unit expenses through productivity increases will continue to underscore our activity. The challenge is to manage increased sales production, with no increase in staff. Above all, we want Ætna Canada to be recognized as a quality organization throughout our country.

Life Division

In 1983, the Life Division focused on product development, and further growth of its present excellent distribution system.

A new health portfolio, introduced in the first quarter, was very well received by our field force and clients. New individual health premium grew 228% over 1982 levels. As well, the Division joined with the Group and Investment Divisions to identify investment opportunities that permitted a much more aggressive stance in our annuity lines, thereby substantially increasing annuity sales in the fourth quarter. However, we lost the market leadership in the "new money" field when our New Money Life product was strongly challenged by the competition. This translated into a drop of 11% in total Life Division new premium income from 1982, to $15.6 million in 1983. A new type of participating product with some innovative dividend options which is expected to reverse this trend is being developed for introduction in March 1984.

Sales for 1983 were split almost evenly between the career and brokerage distribution arms. The year saw steady progress in the joint marketing program sponsored by both the Life and Casualty Divisions. At year-end, we had 27 total account "PRIME" agents, and agent response to the program has been very positive. A significant step for the Division was the conclusion of an agreement with Prairie Pacific Insurance, a major national brokerage organization, whereby PPI would become part of our distribution network. We are optimistic that this step will increase premium production significantly in 1984 and the years ahead.

The National Sales Conference held in Bermuda, April 21 to 24, was very successful, as was the "Great Ætna Getaway" campaign.

A Field Office System project has been established to extend the productivity gains the Division is experiencing in Head Office, through the introduction of office technology such as personal computers and word processors, to the field.

Group Division

The Group Division once again had an excellent sales year. New Group sales totaled $42.5 million, up 41% over 1982. The increase in new pension deposits was particularly impressive: 93% over 1982 sales. These figures do not include new sales made on behalf of Ætna Life Insurance Company's Canadian Branch, or new premiums from rate increases to existing business; these added $10.8 million to sales. Sales credits for 1984 have been modified in some types of business to reflect persistency and premium fluctuation in renewal years.

Group pension responsibilities were re-organized to better capitalize on the corporation's investment expertise, particularly in finding special investment opportunities that dovetail to special client requirements. The new Pension Investment Toronto Office, sponsored jointly by the Investment and Group Divisions, will address our growing pension investment market through an investment oriented sales staff.

Group Division staff has not grown since the end of 1980, despite a 52% increase in revenue and a 68% increase in liabilities since then. The Division has been particularly active in the rotation of staff, a corporate program designed to develop a broader outlook and wider range of skills in Ætna Canada employees.

M.A. Stephen

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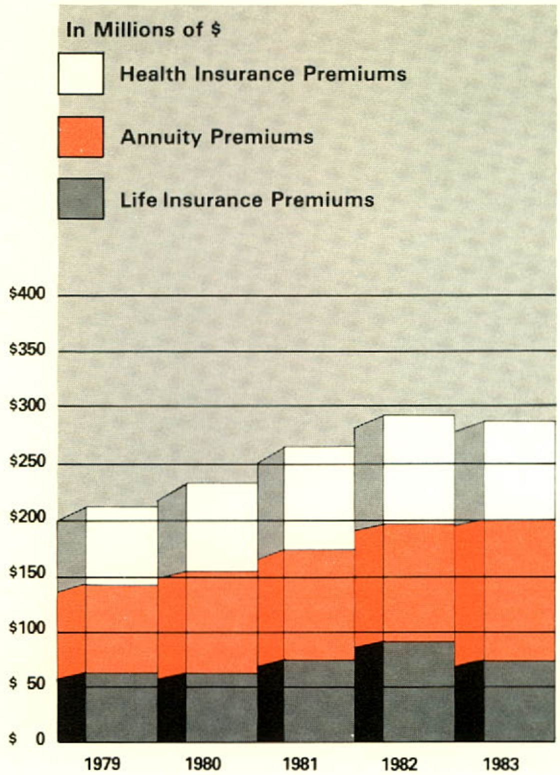
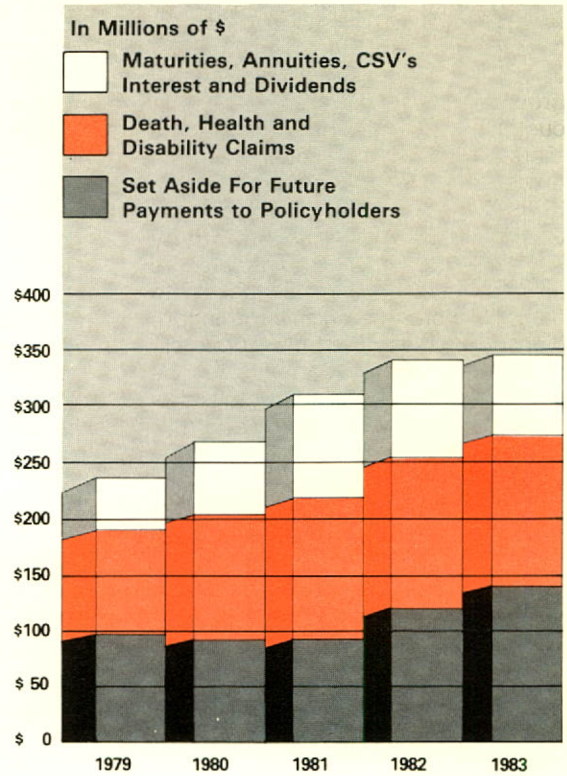
Excelsior Life

Premium Income



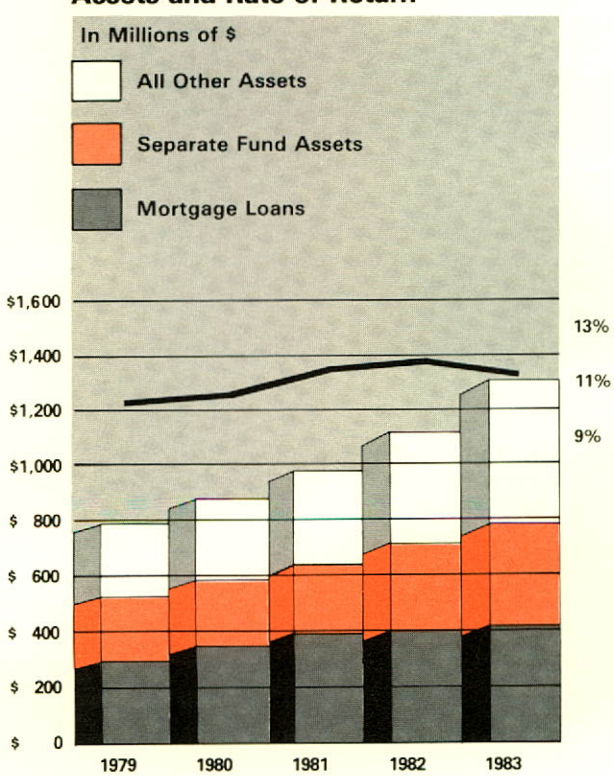
Excelsior Life

Policyholder Benefits



Excelsior Life

Assets and Rate of Return



Casualty Division

The Casualty Division loss ratio declined substantially in 1983 to 67.6%, 10.7% below the prior year's loss ratio of 78.3%. Total direct written premiums were $51.4 million, 12% below 1982 levels. The major reduction occurred in personal lines due mainly to uncompetitive rate levels in Quebec, and the termination of agencies in the Maritimes. We closed our Halifax office, as studies indicated it was not currently a profitable centre and management attention was needed elsewhere. A promising note was the steady growth of policies in force in the last four months of 1983, after eight months of steady declines.

The Division used 1983 to build a strong marketing base for future expansion. Seventy-five new agents were appointed in the year, mainly in suburban or non-metropolitan areas, where the agency plant has not been strong. The new Ottawa office, as well as expansion in eastern Ontario and the Edmonton area, are expected to bring in profitable business.

A wide range of new products was introduced, including a Preferred Risk Auto Underwriting Program, an innovative Computer Insurance Policy, the Enterprise Commercial Package Series, and an enhanced Homeowner's Program.

New systems, such as the ACCESS system, which will process virtually all casualty and property policies automatically before the end of 1984, will increase the productivity of the reduced staff. Casualty staff at the end of 1983 was 35 lower than at the end of 1982. Other systems, such as Direct Bill, will improve persistency rates.

Investment Division

The Investment Division has continued to play an increasingly important role in the development and marketing of insurance products, by bringing investment opportunities to the Insurance Divisions' attention, and by locating investments needed to match a particular product or client's requirements. Clients using Ætna Canada's money management services for both individually managed and pooled funds have generally received above average returns. The lengthening track record of superior investment performance is creating market opportunities for us to attract additional clients.

The innovative pension real estate product introduced in 1982, which allows pension fund investors to share in a first quality, major property, continued to be popular in 1983. Our 1983 offering was the Continental Court, a 200,000 square foot quality office building located on the subway in mid-town Toronto. This property was syndicated to a number of investment management clients, although Ætna Canada still has the largest single portion.

Ætna Canada earnings received a $2.5 million after tax boost from the December 1983 sale of the Tampa Freedom Federal Building held in Citrex Properties Limited, one of Ætna Canada's four Real Estate Subsidiaries. These Subsidiaries, which include both joint ventures and stand-alone corporations, buy, develop and manage underpriced, high potential properties for future resale and are expected to make regular contributions to profits.

Marex Properties Limited, in a joint venture investment, acquired 130 Bloor Street West, a 184,000 square foot office building situated on the north side of Bloor Street between Bay and Avenue Road, an area combining high fashion retailers, luxury hotels and prestigious office locations.

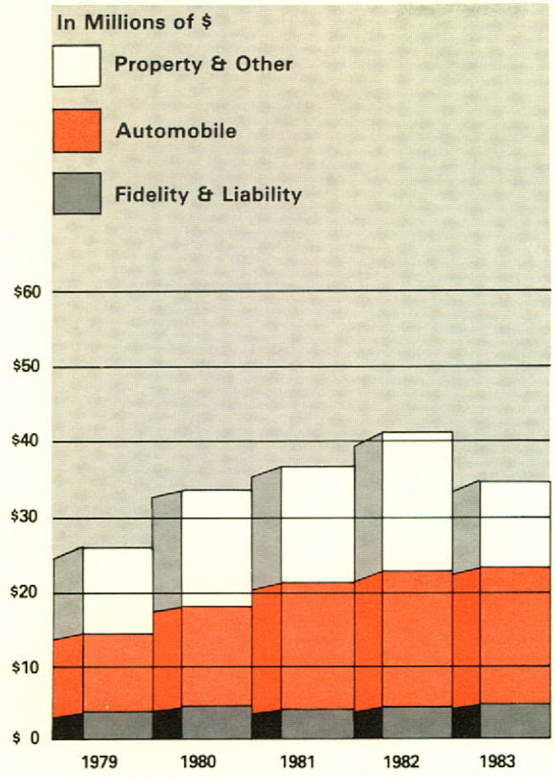
Mortgage approvals in 1983 were $104 million, up from the level of $30 million which prevailed during the two preceding years. This growth represents both the need of our company funds for mortgage products and also the growing demand from investment management clients.

To strengthen our investment management services to pension clients, an important area of future growth, we have made some organizational changes: established a pension real estate department, established the Pension Investments Toronto Office responsible for establishing and implementing investment policy for each of our Ontario clients, and added strength to our head office pension investments department to provide similar investment management support to our pension clients across Canada.

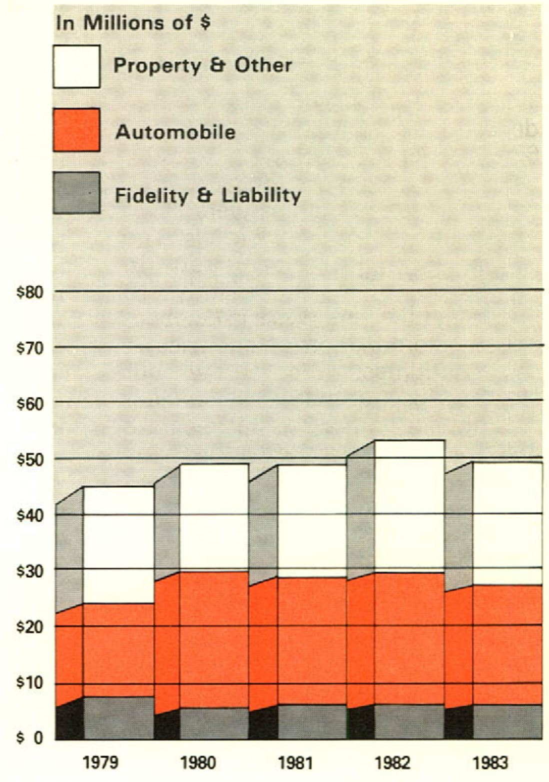
Michael A. Stephen
Executive Vice-President and
Chief Operating Officer

February 15, 1984

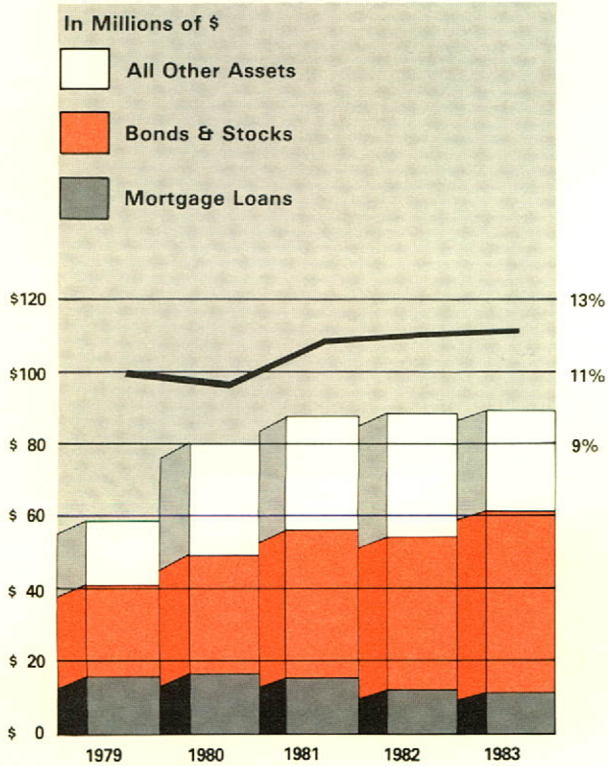
Ætna Casualty
Claims Incurred



Ætna Casualty
Written Premiums



Ætna Casualty
Assets and Rate of Return



Balance Sheet

December 31, 1983
(with comparative figures for 1982)
(thousands of dollars)

Assets	1983	1982
Cash and short term investments	$ 176,561	$ 98,009
Bonds and other debt securities	175,055	160,734
Stocks	34,453	33,088
Mortgage loans	409,328	397,483
Investment real estate	21,423	21,082
Property occupied by the company	—	5,648
Investment in subsidiaries	8,488	4,947
Policy loans	28,796	30,718
Investment income due and accrued	17,966	15,993
Other assets	48,418	39,341
Separate fund assets	370,625	309,936
	$1,291,113	$1,116,979

Liabilities and Capital and Retained Earnings		
Policy liabilities	$ 695,984	$ 607,149
Policy and contract claims	22,665	25,114
Policyholders' funds left with company	17,966	17,845
Policyholders' dividends and refunds	12,272	9,326
Actuarial liabilities	748,887	659,434
Mortgages on real estate	3,761	4,420
Other liabilities	66,781	54,523
Separate fund liabilities	370,625	309,936
	1,190,054	1,028,313
Capital and Retained Earnings		
Capital stock	250	250
Retained earnings-participating policyholders	34,954	28,581
-shareholders	65,855	59,835
	101,059	88,666
	$1,291,113	$1,116,979

See accompanying notes to financial statements.

On behalf of the Board

Gordon N. Farquhar

Director

Director

Statement of Net Income and Retained Earnings

For the year ended December 31, 1983
(with comparative figures for 1982)
(thousands of dollars)

	1983	1982
Revenue		
Premium income	**$287,437**	$292,974
Net investment income	**116,143**	110,473
Net income (loss) from subsidiaries	**2,488**	(585)
	406,068	402,862
Benefits and expenses		
Current and future benefits	**345,521**	340,964
Operating expenses	**61,205**	58,928
Premium and other taxes	**3,942**	4,401
	410,668	404,293
Net operating loss	**4,600**	1,431
Net capital gains on the sale of real estate and health branch investments	**18,440**	648
Realization of benefit of subsidiaries' prior years' losses	**1,053**	—
Net income (loss)	**$ 14,893**	$ (783)
Net income (loss) by fund		
Participating policyholders' net income		
Before dividends	**$ 9,891**	$ 5,104
Dividends to participating policyholders	**3,518**	2,589
Participating policyholders' net income	**6,373**	2,515
Shareholders' net income (loss)	**8,520**	(3,298)
Net income (loss)	**14,893**	(783)
Dividend to shareholders	**(2,500)**	(6,026)
Retained earnings, beginning of year	**88,416**	95,225
Retained earnings, end of year	**$100,809**	$ 88,416

See accompanying notes to financial statements.

Statement of Changes in Invested Resources

For the year ended December 31, 1983
(with comparative figures for 1982)
(thousands of dollars)

	1983	1982
Funds provided		
From operations		
Net operating loss	$ (4,600)	$ (1,431)
Depreciation and amortization	3,026	1,261
Increase in actuarial liabilities	89,453	73,696
Other	(3,324)	585
Funds provided from operations	84,555	74,111
Net capital gains	18,440	648
Bonds and other debt securities sold or matured at book value	85,000	12,115
Stocks sold at book value	22,403	13,903
Investment real estate sold at book value	21,709	1,497
Mortgage loans repaid and sold	84,542	29,894
Property occupied by the company sold	5,489	—
Increase in borrowed funds	—	33,161
Other, net	10,274	(16,004)
Total funds provided	332,412	149,325
Funds applied		
Bonds and other debt securities purchased	98,821	33,493
Stocks purchased	23,768	13,972
Investment real estate purchased	22,222	828
Mortgage loans disbursed	96,387	34,653
Investment in subsidiaries	—	2,552
Dividend to shareholders	2,500	6,026
Decrease in borrowed funds	2,831	—
Purchase of other assets	7,331	8,198
Total funds applied	253,860	99,722
Net increase in funds	78,552	49,603
Cash and short term investments, beginning of year	98,009	48,406
Cash and short term investments, end of year	$176,561	$ 98,009

See accompanying notes to financial statements.

Notes to Financial Statements

For the year ended December 31, 1983

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 Limited 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, 1983 was $17,053,000 (1982—$11,294,000). 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 authorized 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 7% declining balance basis. The life branch unamortized balance of net deferred realized and unrealized gains at December 31, 1983 was $2,700,000 (1982—$1,981,000). 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 a sinking fund basis over terms of 20 to 40 years for investment real estate.

   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. Costs of acquiring policies are deferred and amortized over the policy premium paying period. An amount of $24,554,000 (1982—$24,300,000) 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.

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

(thousands of dollars)

	1983		1982	
	Cost or Amortized Cost	Government Market Value	Cost or Amortized Cost	Government Market Value
Bonds and other debt securities	$175,055	$176,848	$160,734	$151,548
Stocks - common	26,639	33,979	8,868	10,706
Stocks - preferred	7,814	8,595	24,220	22,978
Mortgage loans	409,328	398,151	397,483	368,678
	$618,836	$617,573	$591,305	$553,910

continued .....

3. Real estate:

	(thousands of dollars) 1983			1982
	Cost	Accumulated Depreciation	Net Value	Net Value
Investment real estate	$22,803	$1,380	$21,423	$21,082
Property occupied by the company	—	—	—	5,648
	$22,803	$1,380	$21,423	$26,730

4. Separate fund assets:

	(thousands of dollars) 1983	1982
Market value at beginning of year	$309,936	$255,048
Transfer from general funds being net deposits by contractholders and investment income less expenses	74,051	56,543
Realized and unrealized appreciation of investments	22,061	23,289
Payments to contractholders	(35,423)	(24,944)
Market value of assets at end of year	$370,625	$309,936

5. 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, 1983, 50,000 common shares had been issued.

6. 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 $59,578,000 (1982—$51,307,000) of which $28,818,000 (1982—$22,048,000) is applicable to the participating policyholders' fund.

7. Pension plans:
The company has non-contributory pension plans covering substantially all employees and employee-agents. Pension expense for the year was $2,068,000 (1982—$2,287,000) and includes current service costs and amortization of unfunded past service costs and experience deficiencies. There was an unfunded liability based on the January 1, 1983 valuation of $2,937,000 against which payments of $440,000 were made in 1983. The balance of the unfunded liability is being funded over the next fourteen years.

8. 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, 1983 arising from transactions with these parties are:

	(thousands of dollars) Wholly Owned Subsidiaries	Joint Venture Companies	Associated and Affiliated Companies
Intercompany receivables	$1,439	$ 39	$708
Short term notes receivable, non-interest bearing	$7,720	—	—
Mortgages receivable, at normal interest rates	—	$14,073	—
Loan guarantees to and secured by underlying assets	$2,440	$ 5,500	—
Short term notes receivable, interest bearing	—	$16,622	—
Long term notes payable, interest bearing	$(9,800)	—	—

9. Sale of property occupied by the company:
During the year property occupied by the company was sold for cash generating a capital gain of $15,636,000. The company then moved to leased premises under a long term operating lease.

10. 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)
	1984	$ 7,432
	1985	7,173
	1986	6,955
	1987	6,856
	1988	7,303
	Later years	35,311
Total minimum payments required		$71,030

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, 1983 and the statements of net income and retained earnings and changes in invested resources 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, 1983 and the results of its operations and changes in its invested resources 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.

Peat, Marwick, Mitchell & Co.

Toronto, Canada
February 3, 1984

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, 1983 and its statement of net income (loss) 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 (loss) 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 3, 1984

Ætna Casualty Company of Canada

Balance Sheet

December 31, 1983
(with comparative figures for 1982)
(thousands of dollars)

Assets	**1983**	**1982**
Cash and short term investments	**$21,679**	$15,747
Bonds and other debt securities	**28,116**	23,962
Stocks	—	150
Mortgage loans	**12,655**	13,459
Amounts due from agents	**9,834**	10,376
Amounts due from affiliates	**3,400**	7,772
Property occupied by the company	—	2,381
Furniture and fixtures	**817**	400
Deferred acquisition expenses	**7,719**	8,237
Deferred income tax	**1,196**	1,980
Other assets	**3,114**	2,500
	$88,530	$86,964

Liabilities and Shareholders' Equity		
Insurance and other liabilities		
Unpaid claims	**35,029**	33,815
Unearned premiums	**26,057**	28,091
Borrowed funds	**1,703**	1,251
Other liabilities	**2,419**	2,921
	$65,208	$66,078
Shareholders' equity		
Capital stock	**1,900**	1,900
Contributed surplus	**18,173**	18,173
Retained earnings	**3,249**	813
	23,322	20,886
	$88,530	$86,964

See accompanying notes to financial statements.

On behalf of the Board

Gordon W. Farquhar

Director

Director

Statement of Net Income and Retained Earnings

For the year ended December 31, 1983
(with comparative figures for 1982)
(thousands of dollars)

	1983	1982
Revenue		
Premiums earned	**$51,217**	$50,502
Net investment income	**6,846**	6,694
	58,063	57,196
Claims and expenses		
Claims incurred and adjustment expenses	**34,521**	40,922
Acquisition expenses	**16,203**	14,133
General expenses	**7,308**	7,478
	58,032	62,533
Operating income (loss) before income taxes	**31**	(5,337)
Income tax provision (recovery)	**15**	(2,604)
Net operating income (loss)	**16**	(2,733)
Net realized capital gains (losses) (net of applicable taxes of $769,000, 1982—recovery of $25,000)	**2,420**	(178)
Net income (loss)	**2,436**	(2,911)
Retained earnings, beginning of year	**813**	3,724
Retained earnings, end of year	**$ 3,249**	$ 813

See accompanying notes to financial statements.

Statement of Changes in Invested Resources

For the year ended December 31, 1983
(with comparative figures for 1982)
(thousands of dollars)

	1983	1982
Funds provided		
From operations		
Net operating income (loss)	$ 16	$ (2,733)
Depreciation and amortization	4	(87)
Increase (decrease) in unpaid claims and unearned premiums	(820)	4,822
Decrease (increase) in deferred acquisition expenses	518	(2,662)
Decrease (increase) in deferred income tax	784	(2,582)
Decrease (increase) in due from affiliates	4,372	1,723
Other	(1,097)	(1,790)
Funds provided (applied) from operations	3,777	(3,309)
Net realized capital gains (losses)	2,420	(178)
Surplus contributed by parent company	—	4,000
Bonds and other debt securities sold or matured at book value	17,239	4,662
Stocks sold at book value	150	1,826
Mortgage loans repaid	804	2,343
Property occupied by the company sold	2,361	—
Increase in borrowed funds	452	—
Total funds provided	27,203	9,344
Funds applied		
Bonds and other debt securities purchased	21,271	3,225
Decrease in borrowed funds	—	3,153
Total funds applied	21,271	6,378
Net increase in funds	5,932	2,966
Cash and short term investments, beginning of year	15,747	12,781
Cash and short term investments, end of year	$21,679	$15,747

See accompanying notes to financial statements.

Notes to Financial Statements

For the year ended December 31, 1983

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 Limited 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 and stocks are shown at cost. Gains and losses on disposal of investments are determined on the completed transaction basis.
   b) Property occupied by the company and furniture and fixtures are carried at cost less accumulated depreciation. Depreciation is provided on property occupied by the company on the straight-line basis over a term of 40 years and on furniture and fixtures on the diminishing balance basis at a rate of 20%.
   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. 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 and 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) 1983	1982
Gross unpaid claims	$36,280	$35,190
Deduction for reinsurance ceded	1,251	1,375
Unpaid claims per balance sheet	$35,029	$33,815
Gross unearned premiums	$26,685	$29,058
Deduction for reinsurance ceded	628	967
Unearned premiums per balance sheet	$26,057	$28,091

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

	(thousands of dollars) 1983	1982
Net premiums earned reduced by	$3,669	$8,784
Claims incurred reduced by	$ 793	$3,054

continued .....

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

	(thousands of dollars) 1983		1982	
	Cost or Amortized Cost	Government Market Value	Cost or Amortized Cost	Government Market Value
Bonds and other debt securities	$28,116	$28,514	$23,962	$23,567
Stocks - preferred	—	—	150	126
Mortgage loans	12,655	12,509	13,459	12,870
	$40,771	$41,023	$37,571	$36,563

4. Depreciable assets:

	(thousands of dollars) 1983			1982
	Cost	Accumulated Depreciation	Net Value	Net Value
Property occupied by the company	$ —	$ —	$ —	$2,381
Furniture and fixtures	1,623	806	817	400
	$1,623	$806	$817	$2,781

5. 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, 1983, 38,000 common shares had been issued.

6. 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 $20,700,000 (1982—$18,041,000). The Act also limits dividends to shareholders. No dividend is permissible in 1984.

7. Pension plan:
The company has a non-contributory pension plan covering substantially all employees. Pension expense for the year was $337,000. No pension expense was incurred in 1982 as the plan was fully funded.

8. 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.

9. Sale of property occupied by the company:
During the year property occupied by the company was sold for cash, generating a net capital gain of $2,308,000. The company then moved to premises leased by an affiliated company under a long term operating lease.

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, 1983 and the statements of net income and retained earnings and changes in invested resources 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, 1983 and the results of its operations and changes in its invested resources 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 3, 1984

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Taking Part in Good Causes

At Ætna Canada we recognize our responsibility to the communities in which we operate, both in terms of the insurance we provide and in a broader social perspective. Our success depends on society's well being, so we consider our corporate obligations for public involvement important.

Our Corporate Gifts Committee administers an ongoing, substantial and carefully managed contributions program through which we make grants and donations to many registered Canadian charitable organizations in consideration of the quality of life in the regions in which Ætna Canada is an employer.

One of the challenges facing the Committee is how to provide support through special projects, non-monetary gifts of services or facilities, and contribution methods that involve employees. With these objectives in mind, some experimental projects were introduced during 1983.

One of our most popular public affairs programs during the past year was the continuing sponsorship of Ætna Canada Young People's Concerts at Roy Thomson Hall. The Toronto Symphony performed for sell-out audiences at each of the three matinee concerts. Sponsoring community programs like this is not charity; but a cost of doing business.

Ætna Canada Swimfit, a national adult fitness and recreation program, is being introduced in swimming pools across the country in 1984. A partnership of Ætna Canada, the Canadian Amateur Swimming Association and Fitness Canada, Ætna Canada Swimfit is a very new and untraditional approach to fitness training that has been developed by CASA. Qualified instructors will be installing the program in the spring and summer. The Ætna Canada marketing name and symbol is an integral part of the Ætna Canada Swimfit logo used on all printed and promotional material for the program.

Employee related public involvement activities are part of Ætna Canada's corporate policy. The continuing Community Leadership Awards program annually recognizes Ætna Canada employees for their volunteer work in local service organizations. Each winner, chosen from those nominated by fellow employees, receives a $500 cheque made payable to the charitable group of their choice.

The "Meals on Wheels" program, in cooperation with St. Luke's United Church, brings hot noon-hour meals to elderly and infirm downtown Toronto residents. More than three dozen Ætna Canada employees donate their lunch break time on Fridays each week to deliver more than 350 meals.

We believe that voluntary community contributions by Ætna Canada and its employees is the highest form of good citizenship. Ætna Canada can continue to prosper only as long as the communities we serve remain healthy and we remain welcome in them.

The Excelsior Life Insurance Company

Ætna Casualty Company of Canada

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Ætna
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