Annual Reports 1981

The Excelsior Life Insurance Company

Ætna Casualty Company of Canada

Ætna Casualty

Ætna Casualty Company of Canada is an integrated part of worldwide Ætna Life & Casualty operations offering Canadians a full range of general insurance products.

The company, as it is now named, was incorporated twelve years ago, but its roots as an organization providing insurance products to Canadians go back more than 125 years.

The Ætna organization began business in Canada in 1853 as the Ætna Life Insurance Company. (Life insurance operations are now conducted by The Excelsior Life Insurance Company).

In 1921, the company began to offer property-casualty insurance through The Ætna Casualty and Surety Company, an entity which has been maintained for over 60 years. 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 Canadian property-casualty insurance company.

Ætna Casualty continues to take an innovative approach to meeting the general insurance needs of Canadian consumers, working in co-operation with Excelsior Life.

Excelsior Life

The Excelsior Life Insurance Company is one of Canada's oldest – and most innovative – life insurance organizations.

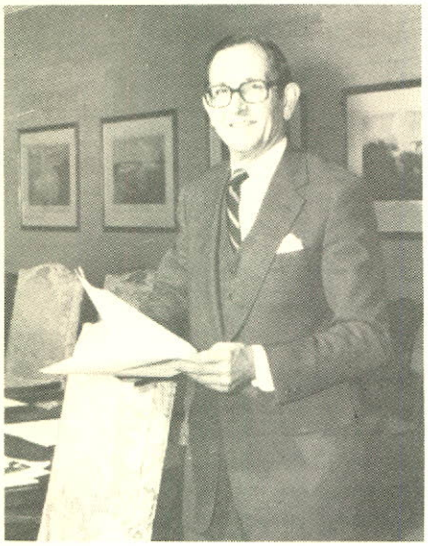
The company began business in Ontario in 1890 and by the turn of the century had opened life insurance offices across Canada under provincial licenses. In 1897 the company became licensed federally. In 1951, Excelsior Life entered the group insurance field and nine years later became affiliated with 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 a comprehensive 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 2000 employees, sales representatives and brokers located in over 50 offices and agencies.

Excelsior Life works closely with its affiliate, Ætna Casualty Company of Canada, leading the trend toward integrated life and property-casualty insurance operations.

Contents

President's Message



Our performance was very satisfactory in most respects in 1981. Several new records were achieved by Excelsior Life. On the other hand Ætna Casualty results were impacted by continued adverse conditions in the property and casualty business in Canada.

Although both interest rates and inflation were at levels higher than expected, our companies succeeded in controlling operating expenses and effective efforts were made to conserve and renew existing business. New investments were made at high yields and asset terms carefully selected.

Premium rates in Ætna Casualty were increased ahead of the competition and writings in a number of lines were intentionally restricted. Despite the effect on new business in both Casualty and Group resulting from these constraints and from weakness in the economy, premiums for the two companies grew by 11% in 1981. New sales in the Life Division outdistanced the prior year record by a wide margin and both the Group and Life Divisions exceeded earnings objectives.

Excelsior Life revenues, including investment income, were up by 13% to $368 million in 1981. At year end, the company's assets stood at $965 million, up from $876 million for 1980. The greater part of this asset growth took place in the company's general funds which increased 12% while assets of segregated funds increased by 6%. After reserve additions to reflect the higher level of new life sales of 1981, net operating earnings at $5.3 million were below the all time high of $9 million (restated) of the prior year when earnings were bolstered by $3.3 million of reserve changes made to reflect higher interest rates. Net income, including capital gains, reached $8.6 million compared with $12 million the year before. Capital and retained earnings in Excelsior Life increased to $95.5 million. Total life insurance in force grew to $12 billion, an 18% increase over the prior year.

The **Group Division** initiated programs in 1980 to emphasize expense control and profitability. These two goals were again adopted for 1981, and the Division achieved outstanding success on both counts. Total group sales declined 4% from those of 1980. Pension deposits were down and the division, working with the investment officers, has undertaken steps that are expected to enhance both sales and conservation of group pension business in 1981.

The **Life Division** achieved a truly outstanding sales performance with new sales reaching $12.7 million of annualized premium – 16% ahead of planned sales and 26% ahead of 1980. Again new and competitive products were well received in the market place and again the increase in life sales was well ahead of the industry's sales increase in Canada.

The division came first in the App-Scrap campaign in which Ætna Life in the U.S. and Ætna Life of Australia and New Zealand also participated. Strong gains were made in premium income and the net cost of operations improved favorably.

Total investment income for Excelsior Life, at $107 million, was 15% higher than the 1980 figure. The yield on life fund assets reached 12.9% which, as in the prior year, was one of the highest in the industry. Ætna Casualty's investment income grew 27% to $6.8 million. All areas of the **Investment Division** performed creatively in a year of uncertainty in financial markets. New strategy for the Separate Equity Fund was effective, in that the Fund was listed among the top performing funds for the first time in several years.

Undoubtedly the major disappointment in 1981 was the severe underwriting loss in **Ætna Casualty.** Losses for the entire industry exceeded the prior year's record loss. Written premiums in Ætna Casualty declined by 2% when compared with 1980.

The economy experienced negative growth in the last half of 1981 and current indicators project further weakness during the first half of 1982. In addition, unexpected proposals were contained in the November 12, 1981 Federal Budget. Among other unsettling measures, the budget proposes that the "inside build-up" under new Whole Life policies and under existing and new non-registered Deferred Annuity policies will be taxable income for the policyowners on a three year accrual basis even though the owners, most of whom are average income earners, actually receive no payments from the policies.

No country in the Western world is known to have such a tax, and in fact, some countries provide positive incentives for life insurance and pension savings. The budget also proposes that premiums paid by an employer for group supplementary health and dental plans for his employees are to be recorded as taxable benefits to these employees. This seems a strange proposal when public health care plans are already under severe financial strain.

We are continuing our study of the impact of these proposals on our business and we have joined with the Canadian Life and Health Insurance Association and the Life Underwriters Association of Canada to make representations opposing these proposals to government officials and to members of parliament. If enacted, they could have a profound effect on the savings patterns of Canadians, on needed capital formation and on the products and services we offer in the future.

The skills and commitment of our people will provide the companies with the strength and determination to meet the challenges of 1982, regardless of the impact, if any, which the Federal Budget proposals may have on the way we do business. During 1981 our companies succeeded in achieving sound growth, despite severe restraint on staff and expense increases. New data processing systems have been installed with productivity and service improvements achieved. These accomplishments are attributable directly to the dedication, professionalism and creative effort of all our staff and of those who represent us in the field. We have continued to outperform our industry in many important respects.

Major General A. Bruce Matthews was first elected a director of The Excelsior Life Insurance Company in 1946. During his 35 years as a Board Member, General Matthews served as senior investment officer, president and more recently as chairman. He chose not to stand for re-election in May of 1981. On behalf of all associated with the companies, I wish to express our gratitude and appreciation for his dedicated leadership and numerous contributions to the progress and growth of our business.

Mr. H. Gordon MacNeill, President & CEO of Jannock Limited, a broadly based industrial company, was elected a director of both companies at the 1981 Annual Meeting.

At the November 1981 Board Meeting, directors accepted with appreciation the resignations of William O. Bailey and Dean E. Wolcott and elected John M. Galvin and Kenneth P. Veit to fill their unexpired terms as directors until the May 1982 Annual Meeting.

Mr. Bailey, President of Ætna Life & Casualty, joined our Boards in 1972. Mr. Wolcott, Senior Vice-President, joined our Boards in 1976. Each has assumed demanding added business responsibilities for Ætna. Mr. Galvin is a Senior Vice-President of Ætna Life & Casualty with responsibility for the Diversified Business Division and Mr. Veit, Vice-President is responsible for Ætna's International Insurance Operations.

Under the expert direction of all members of our Board, our companies will meet the challenges of a rapidly changing marketplace and the environment of the 1980's. I am confident that the human and financial resources, with the necessary skills and plans, are in place so that our companies will continue to grow and prosper.

Gordon N. Farquhar

Gordon N. Farquhar
President and
Chief Executive Officer
February 17, 1982

Divisional Commentary

Life Division

Last year's Life Division slogan "Life is good and getting better" accurately described the unfolding events of 1981. Nothing highlights this more than the Life Division's outstanding sales performance. After a record breaking 1980 and a slow start to the year, the sales effort started to build momentum.

The highlight of the year was the "App Scrap" – an international sales campaign where we challenged both the Ætna United States and the New Zealand and Australia Sales Forces. The exceptional performance of our sales team winning this competition, culminated in record breaking settled months in November and December. 1981 Life Division Sales totalled $12.7 million, a 26% increase over the previous 1980 record. This achievement was in a difficult environment where the industry as a whole grew at about 12% over the previous year.

The successful sales year reflects the continued market acceptance of new money products, such as New-Money Life and Penflex. These two products alone accounted for 63% of the total production.

After several years of preparation, Lifeline 80, the Life Division Policy Administration System, went live on January 5, 1981. The system is providing greater flexibility and, although not without some problems, is coping with the increased production that could not have been handled previously. In 1981, 22,456 policies were settled, 20% more than 1980 and 56% more than 1979.

The Federal Budget proposals introduced November 12th pose a real threat to the life insurance industry and has increased the pace of change. Continued progress will require that we maintain a very proactive approach to the changing marketing environment.

Group Division

In 1981 nine members of the Group Field Force each sold over one million dollars of new premiums – three more "Millionaires" than in 1980. In spite of the number of Millionaires, the sales result for the Division as a whole was slightly below that of 1980 and our 1981 plan. However, this shortfall in new sales was partly alleviated by the record amount of $5.4 million of premium rate increases delivered.

The key objectives of the Group Division in 1981 were to work within budget and to make the profit objective. Both of these targets were reached with the Division 3% below budget before allocation and more than doubling the profit objective. One of the important reasons for the Division's good expense management was the success in increasing productivity by reducing turnover and maintaining staff levels. This resulted in the Group Division's best financial year.

Other accomplishments during 1981 included the implementation of Stage I of EXCLAIMS, our new automated claims systems and a complete reorganization of the Pension Department. At the end of the year, the Marketing and Field Operations Department were combined. These organizational changes should make the Divisional sales thrusts more effective in all product lines during 1982.

Casualty Division

Assets of Ætna Casualty Company of Canada increased from $80.1 million to $86 million reflecting a surplus contribution from Ætna Casualty and Surety (recognizing the almost complete transfer of the writings to Ætna Casualty Company of Canada from Ætna Casualty and Surety Company over the past five years). As a result, the Capital and Surplus account increases to $19.8 million.

Ætna Casualty experienced a net operating loss of $1.4 million in 1981, compared to $92,000 of earnings (restated) in 1980. Contributing to this result is the underwriting cycle which has occasioned generally unfavourable results through the property/casualty industry. This cycle has been aggravated by the economy, protracted by industry overcapacity which, along with the high investment yields, has depressed prevalent rate levels severely, making it difficult to pass on higher claim costs.

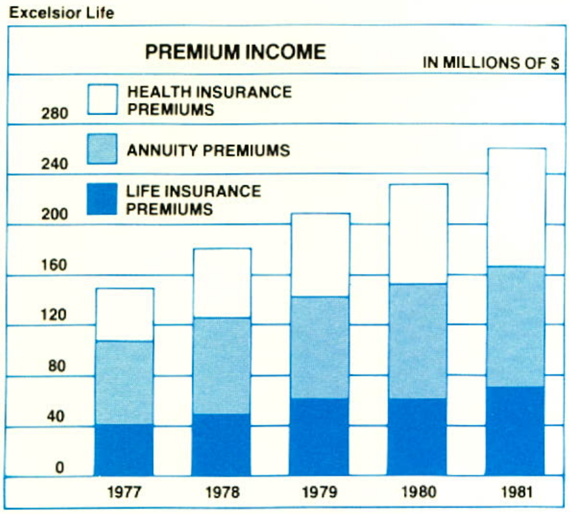
Automobile and personal property rates have been systematically increased in an effort to deal with the impact of inflation and to move rates to levels more nearly adequate. Policies in force declined slightly as a result of aggressive rate action. The commercial insurance market remains depressed which required that policies in force be reduced until more adequate rate levels are available.

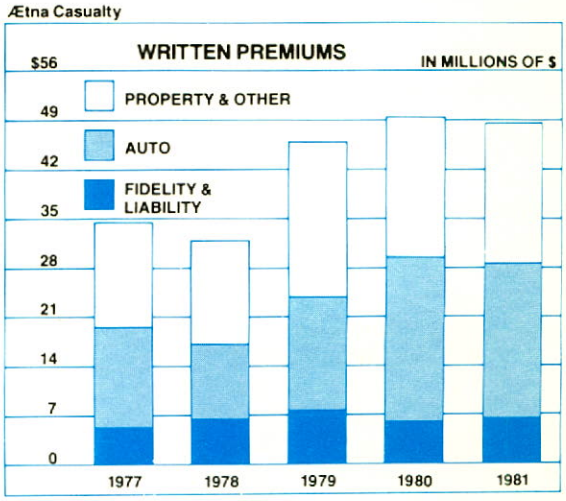
A highlight of 1981 was the placement by Ætna Casualty of a $300 million bond. This is the largest contract of this type ever bonded by the Ætna organization, producing the largest single surety premium.

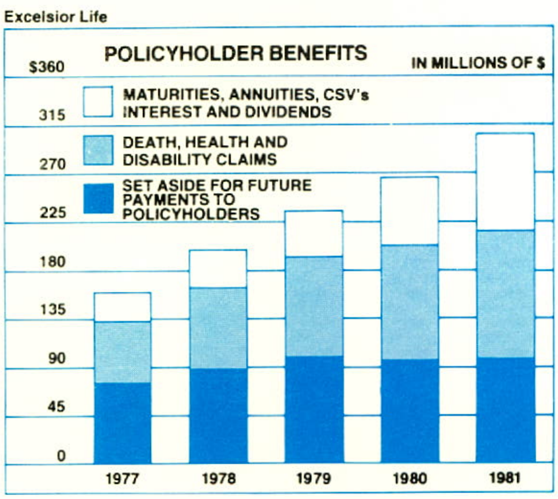
Reorganization to ensure a more cost efficient management structure and expense reduction were priorities during 1981. Staff was reduced substantially during the year. An emphasis was placed on the development of marketing strength and techniques in order to successfully market the casualty products at rates that provided some profitability.

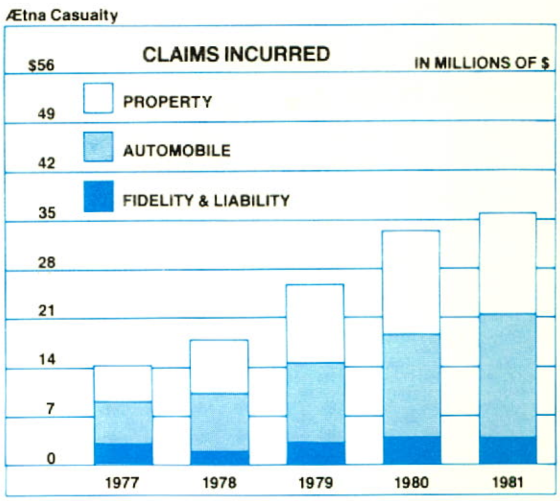
The overall goal for 1982 is to intensify these steps to return Ætna Casualty to a profitable, productive organization.

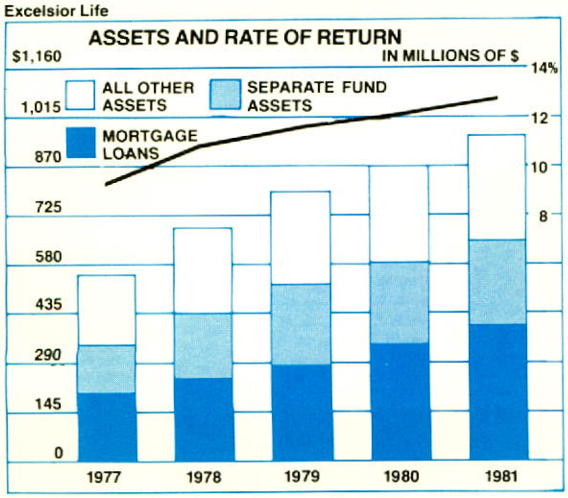
Graphic Summary

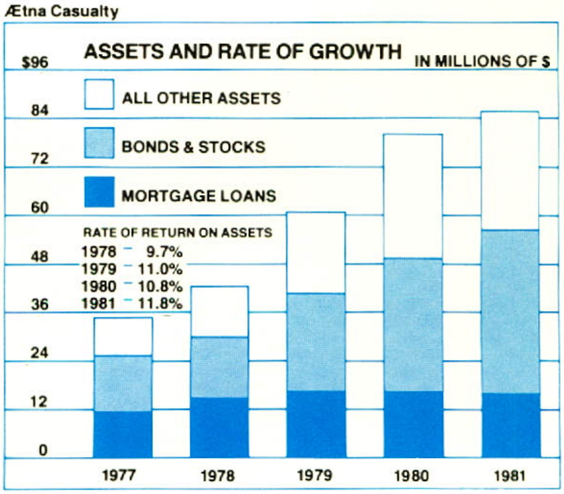












Balance Sheet

December 31, 1981
(with comparative figures for 1980)
(thousands of dollars)

Assets	1981	1980 (Restated Note 2)
Cash and short term investments	$ 48,406	$ 31,475
Bonds and debentures	138,821	137,308
Stocks	33,019	27,252
Mortgage loans	392,724	344,886
Investment real estate	22,666	27,872
Property occupied by the company	5,230	5,417
Investment in subsidiaries	2,986	3,929
Policy loans	29,019	25,031
Investment income due and accrued	20,463	12,358
Other assets	16,198	18,617
Separate fund assets	255,048	241,443
	$964,580	$875,588

Liabilities and Capital and Retained Earnings	1981	1980 (Restated Note 2)
Policy liabilities	$528,884	$470,792
Policy and contract claims	25,904	23,457
Policyholders' funds left with company	18,007	18,387
Policyholders' dividends and refunds	12,943	9,740
Actuarial liabilities	585,738	522,376
Mortgages on real estate	4,522	4,616
Accrued expenses and other liabilities	23,797	20,250
Separate fund liabilities	255,048	241,443
	869,105	788,685
Capital and Retained Earnings		
Capital stock	250	250
Appropriated retained earnings	39,396	31,977
Retained earnings	55,829	54,676
	95,475	86,903
	$964,580	$875,588

On behalf of the Board

Gordon N. Farquhar

Director

Director

See accompanying notes to financial statements.

Statement of Net Income

For the year ended December 31, 1981
(with comparative figures for 1980)
(thousands of dollars)

	1981	1980 (Restated Note 2)
Revenue		
Premium income	$261,104	$232,043
Investment income	106,679	92,890
	367,783	324,933
Benefits and expenses		
Current and future benefits	306,992	266,073
Operating expenses	45,837	40,196
Investment expenses	5,684	6,340
Premium and other taxes	3,932	3,313
	362,445	315,922
Net operating earnings before undernoted item	5,338	9,011
Net capital gains on the sale of real estate and health branch investments	3,234	3,010
Net income	$ 8,572	$ 12,021
Net income by account		
Participating policyholders' net income		
Before dividends	$ 6,060	$ 5,689
Dividends to participating policyholders	3,259	2,969
Participating policyholders' net income	2,801	2,720
Shareholders' net income	5,771	9,301
Net income	$ 8,572	$ 12,021

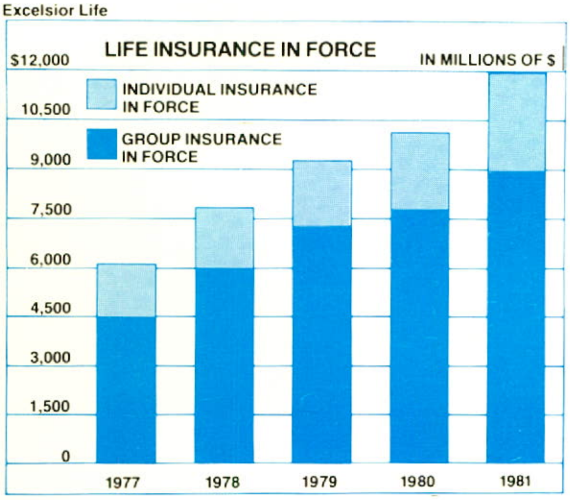
See accompanying notes to financial statements.

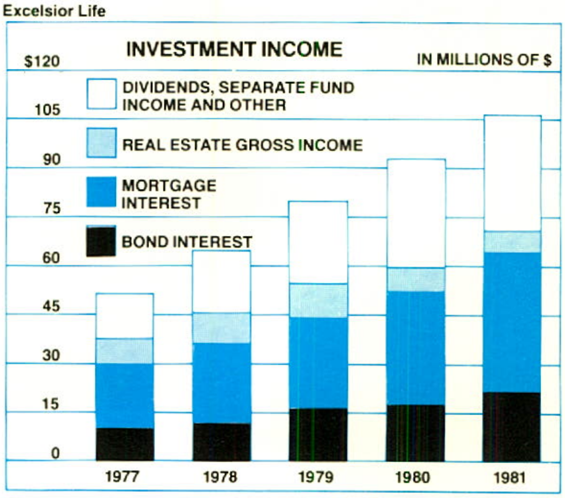
Statement of Retained Earnings

For the year ended December 31, 1981
(with comparative figures for 1980)
(thousands of dollars)

	Participating Policyholders' Account	Non-Participating Policyholders' and Shareholders' Account	1981 Total	1980 Total (Restated Note 2)
Unappropriated				
Balance, beginning of year	$16,308	$38,368	**$54,676**	$47,623
Net income	2,801	5,771	**8,572**	12,021
Transfer to appropriated retained earnings	(2,221)	(5,198)	**(7,419)**	(4,968)
Balance, end of year	$16,888	$38,941	**$55,829**	$54,676
Appropriated				
Balance, beginning of year	$ 6,957	$25,020	**$31,977**	$27,009
Transfer from retained earnings	2,221	5,198	**7,419**	4,968
Balance, end of year	$ 9,178	$30,218	**$39,396**	$31,977

See accompanying notes to financial statements.





Statement of Changes in Invested Resources

For the year ended December 31, 1981
(with comparative figures for 1980)
(thousands of dollars)

	1981	1980 (Restated Note 2)
Funds provided		
From operations		
Net income	$ 8,572	$ 12,021
Depreciation and amortization	421	995
Increase in policyholder liabilities	63,362	52,669
Other	(1,863)	(564)
Funds provided from operation	70,492	65,121
Bonds sold or matured	42,039	24,226
Stocks sold	5,467	6,229
Real estate sold	5,260	3,056
Mortgages repaid	23,461	25,140
Total funds provided	146,719	123,772
Funds applied		
Bonds purchased	43,160	33,788
Stocks purchased	10,959	8,210
Real estate purchased	288	629
Mortgages disbursed	71,299	87,299
Increase in policy loans	3,988	2,792
Repayments of borrowed money	94	1,844
Total funds applied	129,788	134,562
Net increase (decrease) in funds	16,931	(10,790)
Cash and short term investments, beginning of year	31,475	42,265
Cash and short term investments, end of year	$ 48,406	$ 31,475

See accompanying notes to financial statements.

Notes to Financial Statements

For the year ended December 31, 1981

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 and Casualty Company of Hartford, Connecticut, U.S.A. It 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.
   b) Investments in bonds, debentures and mortgages are carried at amortized cost. The difference between the proceeds on the sale of a bond, debenture or mortgage in the life fund 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, 1981 was $10,027,000 (1980 – $3,501,000). 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 fund during the year and the difference between cost and market value of the life fund stocks at the end of the year are recognized in income through a formula that, in effect, amortizes the realized and unrealized gains and losses over a period of up to 15 years. The life branch unamortized balance of net deferred realized and unrealized gains at December 31, 1981 was $2,193,000 (1980 – $2,054,000). Gains and losses in the health branch are recognized on the completed transaction basis.
   d) Investment real estate and property occupied by the company are carried at cost less accumulated depreciation. Depreciation is provided on a straight-line basis for property occupied by the company and on the 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 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 $22,703,000 ($23,057,000 for 1980) representing unamortized deferred costs has been deducted in arriving at the net policy liabilities.
   i) Net income is allocated among the various funds included in unappropriated retained earnings 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.
   j) Appropriated retained earnings are required by the Canadian and British Insurance Companies Act and are in respect of several items, the major ones being for investment valuation, cash value deficiency and negative actuarial liabilities.
   k) Income taxes are provided on the taxes payable method. No income tax is payable in respect of 1981 due to timing differences between financial statement income and income reported for tax purposes. Such differences relate primarily to unclaimed tax actuarial reserves.

2. Accounting change:
   During 1981 the company adopted the "sinking fund" method of depreciation using an interest rate of 6% for the buildings included in investment real estate. The previous method of depreciation had been "straight line". As a result of this change, unappropriated retained earnings at December 31, 1980 were increased by $2,230,000 and at December 31, 1979 were increased by $2,341,000. Net income was decreased by $201,000 and $111,000 in 1981 and 1980 respectively, by this change. In addition, the presentation of certain balance sheet items has been changed to conform to accounting classifications adopted in 1981.

3. Bonds, stocks and mortgage loans:

(thousands of dollars)

	1981		1980	
	Cost or Amortized Cost	Government Market Value	Cost or Amortized Cost	Government Market Value
Bonds	$138,821	$114,387	$137,308	$111,215
Stocks – common	10,676	11,996	13,541	15,919
Stocks – preferred	22,343	17,478	13,711	13,728
Mortgage loans	392,724	324,795	344,886	320,292
	$564,564	$468,656	$509,446	$461,154

4. Real estate:

	1981 (thousands of dollars)			1980
	Cost	Accumulated Depreciation	Net Value	Net Value (Restated Note 2)
Investment real estate	$23,801	$1,135	$22,666	$27,872
Property occupied by the company	8,371	3,141	5,230	5,417
	$32,172	$4,276	$27,896	$33,289

5. Separate fund assets:
Separate fund assets are shown at market values and increased during the year as follows:

(thousands of dollars)	1981	1980
Market value at beginning of year	$241,443	$238,459
Transfer from general funds being net deposits by contractholders and investment income less expenses	47,480	57,077
Realized and unrealized depreciation of investments	(24,747)	(4,166)
Payments to contractholders	(9,128)	(49,927)
Market value at end of year	$255,048	$241,443

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, 1981, 50,000 common shares had been issued.

7. Pension plans:
The company has non-contributory pension plans covering substantially all employees and employee-agents. Provisions for pension costs in 1981 and 1980 were $2,491,000 and $1,441,000 respectively. There remains an unfunded liability, based on the 1978 valuation, of $1,857,000 (of which $34,000 is vested) at December 31, 1981 which is being funded by charges to operations over the next twelve 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 transactions with these parties are:

(thousands of dollars)	Associated and Affiliated Companies	Wholly Owned Subsidiaries	Joint Venture Companies
Intercompany receivables	$1,210	$ 183	$ 17
Short term notes, non-interest bearing	—	$7,712	—
Mortgages, at normal interest rates	—	—	$14,310
Loan guarantees secured by underlying assets	—	$4,200	$ 3,500

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, 1981 and the statements of net income, 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, 1981 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, after giving retroactive effect to the change in the method of calculating depreciation described in Note 2 to the financial statements, applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Toronto, Canada
February 5, 1982

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, 1981 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, 1982

Balance Sheet

December 31, 1981
(with comparative figures for 1980)
(thousands of dollars)

Assets	1981	1980 (Restated Note 2)
Short term investments	$12,781	$ 8,864
Bonds and debentures	25,189	19,105
Stocks	1,976	4,000
Mortgage loans	15,802	16,652
Amounts due from agents	8,750	9,819
Due from parent company	11,471	9,270
Property occupied by the company	2,416	2,447
Furniture and fixtures	396	450
Deferred acquisition expenses	5,575	7,609
Other assets	1,604	1,930
	$85,960	$80,146

Liabilities and Shareholders' Equity		
Insurance and other liabilities		
Unpaid claims	$32,051	$26,294
Unearned premiums	25,033	26,304
Insurance taxes payable	236	950
Amounts due to affiliates	1,976	1,455
Borrowed funds	4,404	3,672
Other liabilities	1,861	1,742
	65,561	60,417
Deferred income tax	602	2,560
Shareholders' equity		
Capital stock	1,900	1,900
Contributed surplus	14,173	10,173
Appropriated retained earnings	2,212	2,744
Retained earnings	1,512	2,352
	19,797	17,169
	$85,960	$80,146

On behalf of the Board

Gordon N. Farquhar
Director

Director

See accompanying notes to financial statements.

Statement of Net Income

For the year ended December 31, 1981
(with comparative figures for 1980)
(thousands of dollars)

	1981	1980 (Restated Note 2)
Revenue		
Premiums earned	$49,995	$47,254
Investment income	6,830	5,395
	56,825	52,649
Claims and expenses		
Claims incurred and adjustment expenses	35,866	33,459
Acquisition expenses	13,078	9,523
General expenses	10,712	9,212
Investment expenses	633	596
Income taxes recovery	(2,025)	(233)
	58,264	52,557
Net operating income (loss)	(1,439)	92
Net realized capital gains (net of applicable taxes of $22,000, 1980 – $21,000)	67	117
Net income (loss)	$(1,372)	$ 209

See accompanying notes to financial statements.

Statement of Retained Earnings

For the year ended December 31, 1981
(with comparative figures for 1980)
(thousands of dollars)

	1981	1980 (Restated Note 2)
Unappropriated		
Balance, beginning of year	$2 352	$2,927
Net income (loss)	(1,372)	209
Transfer from (to) appropriated retained earnings	532	(784)
Balance, end of year	$1,512	$2,352
Appropriated		
Balance, beginning of year	$2,744	$1,960
Transfer from (to) retained earnings	(532)	784
Balance, end of year	$2,212	$2,744

See accompanying notes to financial statements.

Statement of Changes in Invested Resources

For the year ended December 31, 1981
(with comparative figures for 1980)
(thousands of dollars)

	1981	1980 (Restated Note 2)
Funds provided		
From operations		
Net income (loss)	$ (1,372)	$ 209
Depreciation and amortization	(110)	131
Increase in unpaid claims and unearned premiums	4,486	10,965
Decrease (increase) in deferred acquisition expense	2,034	(1,372)
Decrease in deferred income tax	(1,958)	(212)
Increase in due from parent company	(2,201)	(9,270)
Other	1,276	2,678
Funds provided from operations	2,155	3,129
Surplus contributed by parent company	4,000	6,000
Bonds sold or matured	24	1,369
Stocks sold	2,024	1,093
Mortgage loans repaid	850	437
Increase (decrease) in borrowed funds	732	(1,222)
Total funds provided	9,785	10,806
Funds applied		
Bonds purchased	5,868	17,918
Stocks purchased	—	753
Mortgage loans disbursed	—	604
Total funds applied	5,868	19,275
Net increase (decrease) in funds	3,917	(8,469)
Short term investments, beginning of year	8,864	17,333
Short term investments, end of year	$12,781	$ 8,864

See accompanying notes to financial statements.

Notes to Financial Statements

For the year ended December 31, 1981

Ætna Casualty Company of Canada is incorporated in Canada under the Canadian and British Insurance Companies Act and is a subsidiary of The Ætna Casualty and Surety 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 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 pro-rata basis over the life of the policies. Acquisition expenses (see Note 2) 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 reserve for losses and loss expenses, respectively. A contingent liability exists with respect to reinsurance ceded which could become a liability of the company in the event that any reinsurer might be unable to meet its obligations under the reinsurance agreements.
   f) Deferred income taxes are provided for timing differences between financial statement income and income reported for tax purposes. Such differences relate primarily to the deferral of acquisition expenses and unearned premiums.

2. Accounting change:
   During 1981 the company changed its definition of acquisition expenses related to unearned premiums to include certain expenses of underwriting and issuing policies in addition to the previously used commissions and premium taxes. In addition, the company now aggregates all lines of business and gives consideration to investment income as well as losses and expenses expected to be incurred when determining realizable values of deferred acquisition expenses. As a result of these changes, unappropriated retained earnings at December 31, 1980 were increased by $2,735,000 and at December 31, 1979 were increased by $1,947,000. Net income was decreased by $267,000 in 1981 and increased by $788,000 in 1980 by these changes. In addition, the presentation of certain balance sheet items have been changed to conform to accounting classifications adopted in 1981.

3. 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. The following table sets out the impact of reinsurance ceded on liabilities:

	(thousands of dollars) 1981	1980
Gross unpaid claims	$34,696	$28,032
Deduction for reinsurance ceded	2,645	1,738
Unpaid claims per balance sheet	$32,051	$26,294
Gross unearned premiums	$27,185	$29,031
Deduction for reinsurance ceded	2,152	2,727
Unearned premiums per balance sheet	$25,033	$26,304

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

	(thousands of dollars) 1981	1980
Net premiums earned reduced by	$ 6,281	$ 5,304
Claims incurred reduced by	$14,130	$11,576

4. Bonds, stocks and mortgage loans:

	(thousands of dollars) 1981		1980	
	Cost or Amortized Cost	Government Market Value	Cost or Amortized Cost	Government Market Value
Bonds	$25,189	$23,424	$19,105	$18,037
Stocks – common	650	728	1,714	1,815
Stocks – preferred	1,326	1,008	2,286	2,578
Mortgage loans	15,802	13,920	16,652	15,076
	$42,967	$39,080	$39,757	$37,506

5. Depreciable assets:

	(thousands of dollars) 1981			1980
	Cost	Accumulated Depreciation	Net Value	Net Value
Property occupied by the company	$2,537	$ 121	$2,416	$2,447
Furniture and fixtures	1,008	612	396	450
	$3,545	$ 733	$2,812	$2,897

6. 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, 1981, 38,000 common shares had been issued. During the year, the parent company paid in $4,000,000 in cash to contributed surplus.

7. Requirements under the Canadian and British Insurance Companies Act:
Appropriated retained earnings are required by the Canadian and British Insurance Companies Act and are in respect of several items, the major ones being furniture and fixtures, investment valuation reserve and a reserve for reinsurance ceded to unregistered companies. The Act also limits dividends to shareholders. The maximum permissable dividend for 1982 is $57,000.

8. Pension plan:
The company has a non-contributory pension plan covering substantially all salaried employees. No provision was required for pension costs in 1981 as the plan was fully funded. Provision for pension costs was $110,000 in 1980.

9. Related party transactions:
The company, in its normal course of business, has various agreements with reinsurance companies. One of these is with its parent company. All premiums and recoveries under this agreement, which are substantial, are recorded in the intercompany account and are settled on a regular periodic basis.

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, 1981 and the statements of net income, 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, 1981 and the results of its operations and changes in its invested resources for the year then ended in accordance with generally accepted accounting principles, after giving retroactive effect to the change in the method of determining deferred acquisition expenses in Note 2 to the financial statements, applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Toronto, Canada
February 5, 1982

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Supplementary Financial Information
($000's omitted)

	1981	1980	1979	1978	1977
Premiums:					
Life, Health and Annuity:					
Individual	$ 72,292	$ 56,754	$ 47,567	$ 45,035	$ 42,525
Group	188,812	175,289	161,186	136,196	107,088
	261,104	232,043	208,753	181,231	149,613
Casualty-Property:					
Auto	23,142	20,391	13,558	12,089	7,743
Property	20,091	21,021	17,597	13,763	11,786
All other	6,762	5,842	6,541	5,570	4,092
	49,995	47,254	37,696	31,422	23,621
Total	$ 311,099	$ 279,297	$ 246,449	$ 212,653	$ 173,234
Investment Income:					
Life and Annuity	$ 97,128	$ 85,510	$ 72,396	$ 59,595	$ 40,587
Health	9,551	7,380	7,889	4,961	4,055
Casualty-Property	6,830	5,395	4,277	2,864	1,389
Total	$ 113,509	$ 98,285	$ 84,562	$ 67,420	$ 46,031
Current and Future Benefits:					
Life and Annuity	$ 221,896	$ 192,457	$ 165,967	$ 145,965	$ 121,905
Health	85,096	73,616	68,982	53,486	39,014
Casualty-Property	35,866	33,459	25,728	17,860	14,171
Total	$ 342,858	$ 299,532	$ 260,677	$ 217,311	$ 175,090
Life Insurance in Force:					
New Insurance Sales (face value):					
Individual	$ 1,150,345	$ 746,003	$ 450,148	$ 400,541	$ 314,900
Group	1,766,298	967,626	1,603,325	1,910,090	1,066,513
Total	$ 2,916,643	$ 1,713,629	$2,053,473	$2,310,631	$1,381,413
Amounts in Force at Year End:					
Individual	$ 3,024,348	$ 2,369,111	$1,993,642	$1,854,726	$1,662,967
Group	8,974,134	7,782,313	7,275,415	6,002,471	4,475,241
Total	$11,998,482	$10,151,424	$9,269,057	$7,857,197	$6,138,208

Ætna Casualty/Excelsior Life

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