Annual Reports 1980

Ætna Casualty / Excelsior Life

Ætna Casualty Company of Canada

The Excelsior Life Insurance Company

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Ætna Casualty du Canada, Compagnie d'Assurance
L'Excelsior, Compagnie d'Assurance-Vie
20, rue Toronto, Toronto
Ontario M5C 2C4

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.

And while the company as it's now named was incorporated eleven years ago, its roots as an organization providing insurance products to Canadians go back more than 125 years.

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

In 1919, the company began to offer property-casualty insurance through The Ætna Casualty and Surety Company, an identity 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.

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

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 1600 employees, sales representatives and brokers located in over 50 offices and agencies.

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

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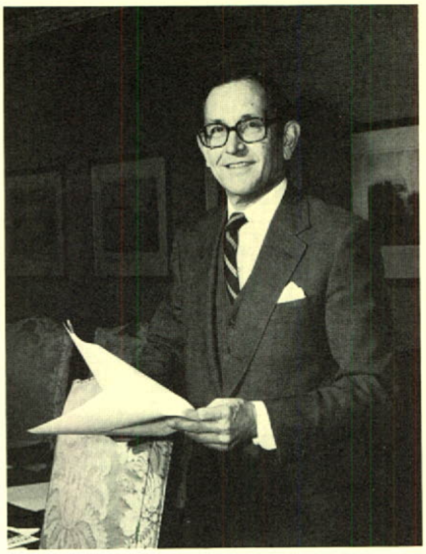
President's Message

1980 was a difficult year for the insurance industry, and for many other financial businesses, as interest rates reached record high levels, retreated sharply and rose again. It was a time when Ætna Casualty/Excelsior Life were challenged by both external developments and changing internal needs. It was also a time when we were able to continue the pattern that our two companies established in the last half of the 1970's, of having a higher rate of growth in Canadian premium income than the industry.

Our growth record is largely due to the dedication, loyalty and hard work of our employees, who have developed new products that are receiving good acceptance in the marketplace and new, improved systems and service capabilities. It is also due to an effective and dedicated sales force.

During the past year, Excelsior Life's premium income increased by more than 11%. Total revenues, including investment income, were up by 12.4% to $324.9 million. Net Operating Earnings, at $8.6 million, were slightly ahead of the 1979 record; and net income, including capital gains, reached $12.1 million compared to $11.5 for the previous year. At year end, assets stood at $873.4 million, compared with $798.0 million for 1979. Almost all of the asset growth took place in company funds, which increased 12.9% while assets of segregated funds were up 1.3%. Capital and Surplus in Excelsior Life increased by $12.1 million to $84.7 million. Total life insurance in force crossed the $10 billion mark for the first time, more than double the volume just four years earlier.

Spurred by the introduction of New Money Life late in 1979, the Life Division recorded the sales highlight of the year by generating



sales in excess of $10 million of new annualized premium for the first time ever. That is an increase of 26% over the previous record which was set in 1979, considerably above the rate of increase in individual sales for the life insurance business.

Improved productivity of the agency force was not the only highlight of the year. Another was the herculean effort by the Life Division and Corporate Systems Services to bring the highly complex and extensive Lifeline 80 system on-line at year-end. This achievement would never have been possible without the support of the entire organization and a commitment by the Lifeline 80 team.

After a long history of increasing sales, the Group Division changed its emphasis in 1980 to controlling expenses and increasing profitability. This included needed rate increases for existing life and health accounts, and our strategy coincided with a decline of activity throughout the group market.

As a result, sales to new customers declined for the first time in many years. Sales of additional benefits to existing policyholders were very strong and exceeded expectations. The Division also took a step toward increasing future productivity through the implementation of EXCLAIMS for the processing of group health claims in the Toronto and Hamilton offices.

Yield rates were higher than expected and total investment income for Excelsior Life, at $92.9 million, was 15.7% above the 1979 figure. The yield on life fund assets increased from 10.2% to 11.0%, which is one of the highest in the industry. Ætna Casualty's investment income grew 26.1% to $5.4 million from $4.3 million.

The greatest disappointment of the year was the extreme deterioration of property and casualty claims and losses for the entire industry and for our company in particular. We recognized at the beginning of the year that the cycle had turned down for the industry, but we underestimated the size of the slide. Although total personal lines premiums were up substantially, 42% over '79, claims under the impact of inflation rose even more rapidly. Rate levels for commercial lines continued to be inadequate. As a result, Ætna Casualty had a net operating loss of $696,000 for the year, after recovery under reinsurance treaties and despite good gains in investment income. The 25.4% increase in earned premiums to $47.3 million is expected to be well above industry growth that is estimated to be in the 7 to 10% range.

One of the major departments involved in any modern and complex business enterprise is represented by our Corporate Systems Services, which has the critical task of supplying special skills, technology and data centre operations. The volume of tasks required of CSS and the quality of skilled people have expanded tremendously in the last few years.

1980 also saw recruiting and staffing functions reach an all-time high at Head Office, with 459 openings filled from external and internal sources.

This was accomplished without increasing the size of our recruiting staff. The salary review for our two companies was fully integrated on July 1st for our 1400 employees.

A five-year space plan involving the use of modular furniture was prepared and put into effect with the conversion of the Life Division space now being completed.

Staff development courses and programs, as we continue our commitment to personal growth, have expanded.

The Financial Division achieved an important revision of the management statement packages, moved to monthly budget and expense monitoring so as to help provide the tools for expense control and installed a new investment income allocation model.

The success of the outstanding National Sales Conference in Acapulco was due in no small part to the excellent co-ordination between Conference and Travel Services and the Life Division.

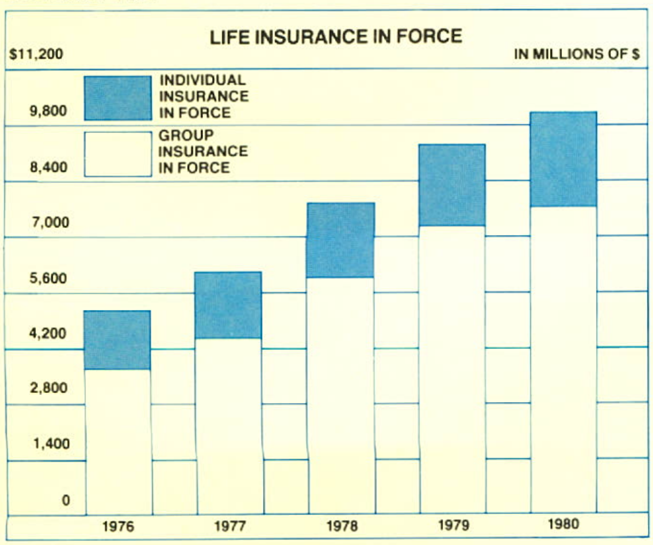
1980 has also been a year of significant successes on the part of Medical, Law and Linguistic Services and Public Affairs.

It was a challenging year and much remains to be done in 1981. Growth is expected to be slow in the economy during the first half of the year, and it will take time for the Casualty underwriting environment to improve. I am confident that we have the programs in place to continue to increase market share at a sound rate, to strengthen the management and control of expenses and to improve productivity, unit costs and profitability of our operations. In addition to these plans and programs, I am even more confident that Ætna/Excelsior people have the professional and technical ability and, more importantly, the determination and commitment so amply demonstrated by their achievements and superior efforts in last year's environment. With this kind of teamwork behind us, I am sure that Ætna Casualty/Excelsior Life will continue to outperform the industry.

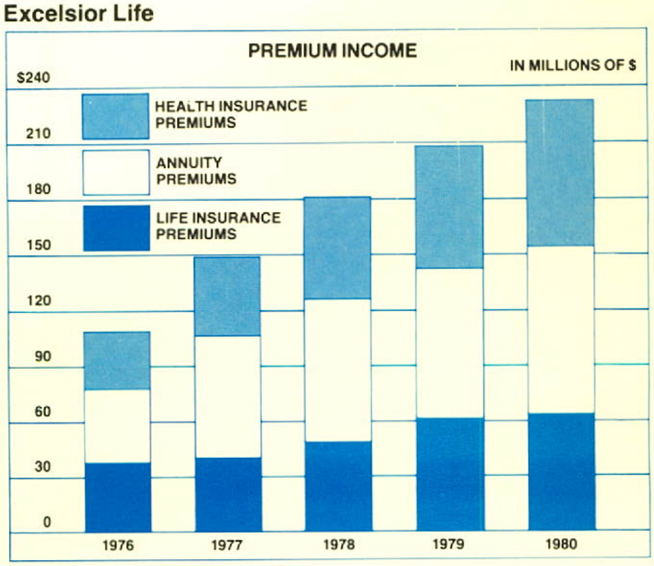
Gordon N. Farquhar

Gordon N. Farquhar
President and
Chief Executive Officer
February 18, 1981

Excelsior Life



Excelsior Life



Divisional Commentary

Life Division

Total Life Division Sales for 1980 were just over $10 million, 26% ahead of 1979. This record performance was achieved in the Canadian market where the Life insurance industry is anticipating an average increase in the order of 10% over the previous year.

A major contributor to this result was the New Money Life policy that was introduced in September, 1979. Net annualized premium in 1980 totalled $3.3 million. Non-Par Annuity sales were also favourable. Par sales, on the other hand, at $1.4 million, were below 1979, reflecting the shift of consumer emphasis to non-par lines.

As a result of the overall sales increase, premium income of $59 million is 21% over last year.

The Life Division successfully completed the development work for its new electronic data system LIFELINE 80. This complex system, which is designed to administer all of Life Division records, went on-line January 5, 1981 following an intense development and conversion period. We believe the system gains the Life Division a unique advantage and shall place the organization at the forefront of the Industry in Canada. It will allow for substantial growth and innovation with product design.

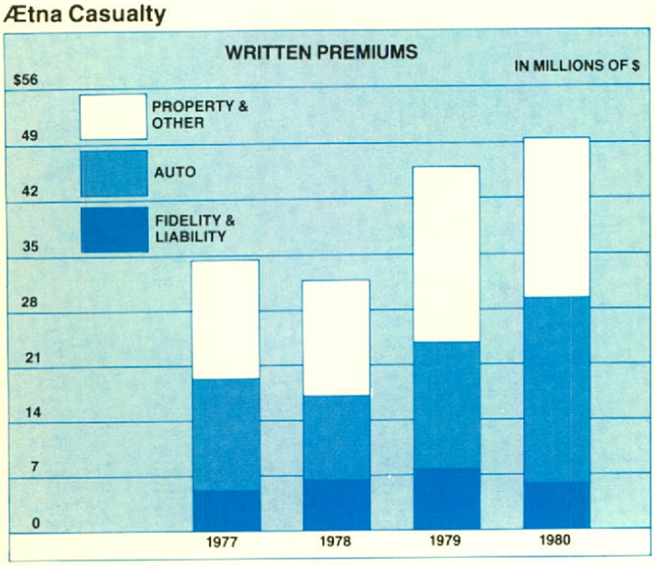
Progress in the 80's will require growth in field management. In 1980 a new training program was initiated to identify, train and develop management talent. The first twelve months of the program produced three branch managers. We also added substantial strength to our marketing organization in Quebec with the appointment of a Director of Life Operations, Quebec.

Casualty Division

1980 was the worst year on record for the Casualty-Property insurance industry in Canada. It is estimated that underwriting losses for the general insurance industry for 1980 will reach a record level, perhaps in excess of $600 million. Inflation, arson, insurance-related crime, and a recessionary economy have combined to be the chief contributors to escalating claims costs. While frequency in automobile claims remains reasonably low, both bodily injury and property damage severity increased dramatically, particularly during the latter part of 1980. In addition, many underwriters and reinsurers appear to have ignored prudent underwriting and have offered low premium rates in order to increase market share and cash flow.

Part of the rate problem can be attributed directly to the wage and price program in operation during the latter half of the 1970's. In addition to requiring that rates not rise above fixed levels during the period

Ætna Casualty



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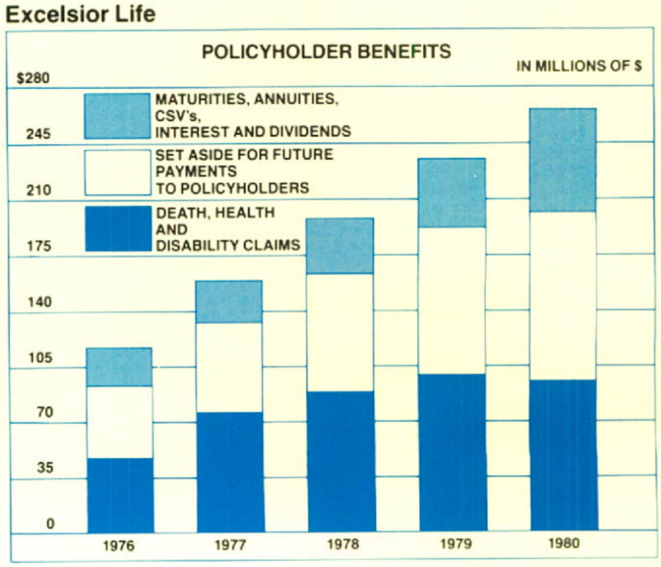


of controls, Ætna Casualty was also required to freeze its personal rate lines for all of 1979. Consequently, our casualty operation began 1980 with outdated and deficient rate structures for personal lines established in 1977. While rate action was taken throughout 1980 Ætna Casualty nevertheless had a loss on the year's operations of $696,000.

The largest contributions to these losses were in the auto line, primarily in Quebec. Excess and Bond were the only lines to show a profit.

Group Division

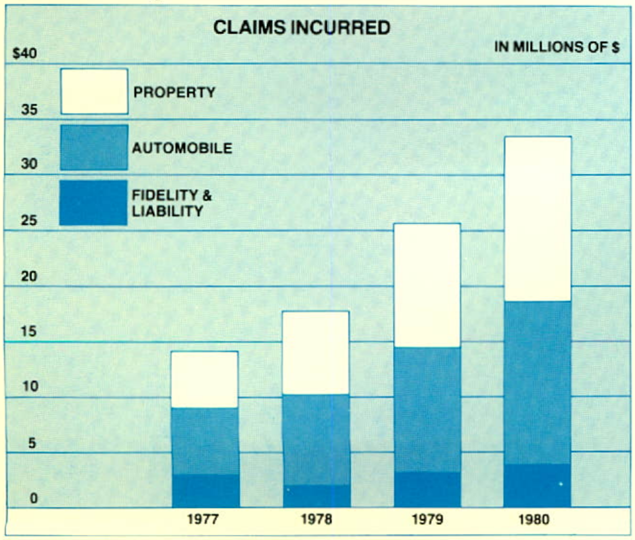
The Group Division had a very satisfactory year overall especially in the areas of profitability and expense control.

Despite a troublesome economy Division earnings for 1980 were double those for the previous year. This was achieved in part through a reduction in both the percentage and actual dollar rate of expense growth that took place in the two prior years.

Sales in 1980 were disappointing. New group premiums in 1980 of $23.6 million were significantly below 1979 the record high. The market for new sales was off, principally due to economic slowdown and in addition, competition increased as many companies attempted to improve market share.

A major reorganization of the division management structure, including the appointment of a Director of Field Operations, was completed during the year. Major strides were also made towards the completion and full implementation of two large EDP administration systems.

Ætna Casualty



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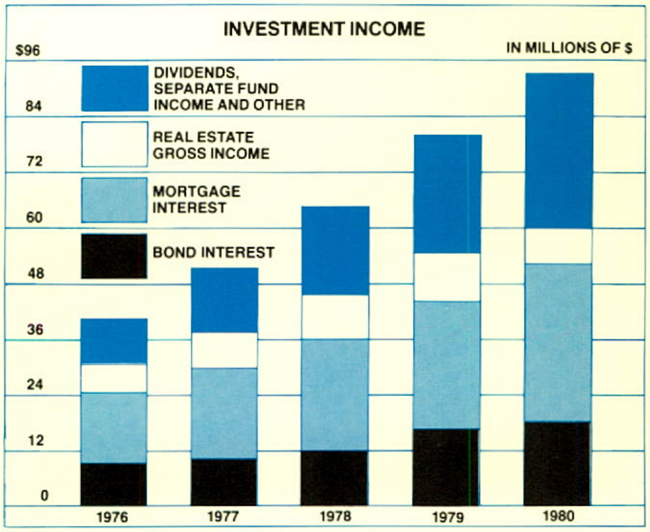


Statement of Net Income

For the year ended December 31, 1980
(with comparative figures for 1979)
(thousands of dollars)

	1980	1979
Revenue		
Premium income	$232,043	$208,753
Investment income	92,890	80,285
	324,933	289,038
Benefits and expenses		
Current and future benefits	266,073	234,949
Operating expenses	40,196	33,996
Investment expenses	6,748	8,715
Premium and other taxes	3,313	2,878
	316,330	280,538
Net operating earnings before undernoted items	8,603	8,500
Net capital gains on the sale of real estate and health branch investments	3,529	3,022
Net income	$ 12,132	$ 11,522
Net income by account:		
Participating policyholders' net income		
Before dividends	$ 5,715	$ 3,960
Dividends to participating policyholders	2,969	3,258
Participating policyholders' net income	2,746	702
Shareholders' net income	9,386	10,820
Net income	$ 12,132	$ 11,522

See accompanying notes to financial statements.

Statement of Retained Earnings

For the year ended December 31, 1980
(with comparative figures for 1979)
(thousands of dollars)

	Participating Policyholders' Account	Non-Participating Policyholders' and Shareholders' Account	1980 Total	1979 Total
Unappropriated				
Balance, beginning of year	$13,167	$32,164	**$45,331**	$34,328
Net income	2,746	9,386	**12,132**	11,522
Dividends to shareholders	–	–	**–**	(25)
Transfer to appropriated retained earnings	(337)	(4,631)	**(4,968)**	(494)
Balance, end of year	$15,576	$36,919	**$52,495**	$45,331
Appropriated				
Balance, beginning of year	$ 6,620	$20,389	**$27,009**	$26,515
Transfer from retained earnings	337	4,631	**4,968**	494
Balance, end of year	$ 6,957	$25,020	**$31,977**	$27,009

See accompanying notes to financial statements.

Balance Sheet

December 31, 1980
(with comparative figures for 1979)
(thousands of dollars)

Assets	1980	1979
Cash and short term investments	$ 31,475	$ 42,265
Bonds and debentures	137,308	127,401
Stocks – common and preferred	27,252	25,271
Mortgage loans	344,886	282,727
Investment real estate	25,642	28,824
Property occupied by the company	5,417	5,546
Investment in subsidiaries	3,929	3,906
Policy loans	25,031	22,239
Investment income due and accrued	12,358	8,786
Other assets	18,617	12,601
Separate fund assets	241,443	238,459
	$873,358	$798,025

Liabilities and Capital and Retained Earnings	1980	1979
Policy liabilities	$416,050	$373,912
Policy and contract claims	72,332	60,981
Policyholders' funds left with company	18,387	17,177
Policyholders' dividends and refunds	15,607	17,637
Actuarial liabilities	522,376	469,707
Mortgages on real estate	4,616	6,460
Accrued expenses and other liabilities	20,201	10,809
Separate fund liabilities	241,443	238,459
	788,636	725,435
Capital and Retained Earnings		
Capital stock	250	250
Appropriated retained earnings	31,977	27,009
Retained earnings	52,495	45,331
	84,722	72,590
	$873,358	$798,025

On behalf of the Board

Gordon N. Farquhar
Director

Director

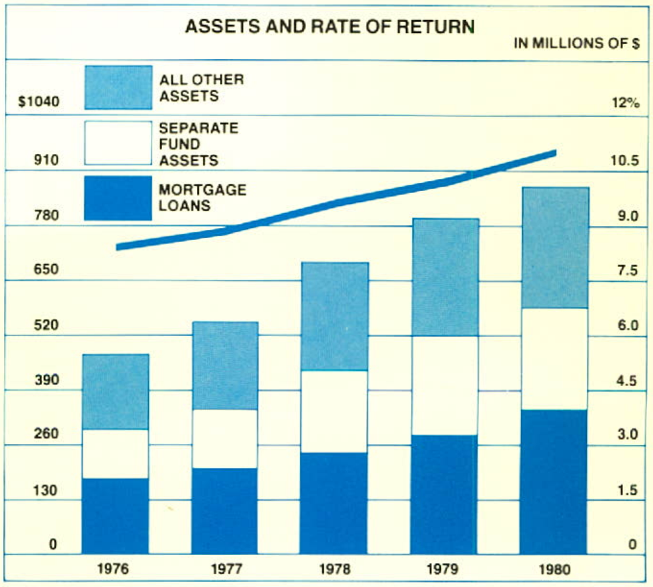
See accompanying notes to financial statements.

Statement of Changes in Invested Resources

For the year ended December 31, 1980
(with comparative figures for 1979)
(thousands of dollars)

	1980	1979
Funds provided:		
From operations		
Net income	$ 12,132	$ 11,522
Depreciation and amortization	884	1,226
Increase in policyholder liabilities	52,669	55,830
Other	(564)	(2,959)
	65,121	65,619
Bonds sold or matured	24,226	10,736
Stocks sold	6,229	11,753
Real estate sold	3,056	14,085
Mortgages repaid	25,140	28,501
Decrease in cash and short term investments	10,790	30,781
Total funds provided	$134,562	$161,475
Funds applied:		
Bonds purchased	$ 33,788	$ 71,519
Stocks purchased	8,210	13,096
Real estate purchased	629	–
Mortgages disbursed	87,299	63,545
Increase in policy loans	2,792	1,810
Repayment of borrowed money	1,844	11,480
Dividends to shareholders	–	25
Total funds applied	$134,562	$161,475

Excelsior Life



See accompanying notes to financial statements.

Notes to Financial Statements

For the year ended December 31, 1980

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 (debt securities) are carried at amortized cost. The difference between the proceeds on the sale after January 1, 1978 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. In the health branch the completed transaction basis is used.
   c) Investments in stocks (equity securities) 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. 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 over terms of 20 to 40 years.
   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 on the 1978 Canadian method using interest, mortality and withdrawal assumptions appropriate for the policies in force. During 1980 the rates of interest used for paid up insurances and annuities were changed to a uniform basis increasing net income for the year by $3,271,000. Costs of acquiring policies are deferred and amortized over the policy premium paying period. An amount of $23,057,000, $23,075,000 for 1979, 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 1980 due to timing differences between financial statement income and income reported for tax purposes. Such differences relate primarily to unclaimed tax actuarial reserves.

2. Bonds, stocks and mortgage loans:

(thousands of dollars)

	1980		1979	
	Cost or Amortized Cost	Government Market Value	Cost or Amortized Cost	Government Market Value
Bonds and debentures	$137,308	$111,215	$127,401	$111,095
Stocks – common	13,541	15,919	15,725	19,707
Stocks – preferred	13,711	13,728	9,546	9,633
Mortgage loans	344,886	320,292	282,727	257,641
	$509,446	$461,154	$435,399	$398,076

3. Real estate:

(thousands of dollars)

	1980 Cost	1980 Accumulated Depreciation	1980 Net Value	1979 Cost	1979 Accumulated Depreciation	1979 Net value
Investment real estate	$ 29,103	$ 3,461	$ 25,642	$ 32,551	$ 3,727	$ 28,824
Property occupied by the company	8,358	2,941	5,417	8,288	2,742	5,546
	$ 37,461	$ 6,402	$ 31,059	$ 40,839	$ 6,469	$ 34,370

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

(thousands of dollars)

	1980	1979
Market value at beginning of year	$238,459	$190,825
Transfer from general funds being net deposits by contract holders and investment income less expenses	57,077	57,540
Realized and unrealized depreciation of investments	(4,166)	(6,982)
Payments to contract holders	(49,927)	(2,924)
Market value at end of year	$241,443	$238,459

5. Capital stock:
The company has authorized 250,000 redeemable preference shares of the par value of $100 each and 100,000 common shares of the par value of $5 each. At December 31, 1980, 50,000 common shares had been issued.

6. Pension plan:
The company has non-contributory pension plans covering substantially all employees and employee-agents. Provisions for pension costs in 1980 and 1979 were $1,441,000 and $1,206,000 respectively. There remains an unfunded liability, based on the 1978 valuation, of $2,987,000 (of which $1,164,000 is vested) at December 31, 1980 which is being funded by charges to operations over the next thirteen years.

7. 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:

	Associated and Affiliated Companies	Wholly Owned Subsidiaries	Joint Venture Companies
Intercompany receivables (payables)	$ 810,000	$(1,142,000)	$ 17,000
Short term notes, non interest bearing	—	4,281,000	185,000
Mortgages, at normal interest rates	—	—	15,407,000
Loan guarantees secured by underlying assets	—	7,200,000	4,200,000

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, 1980 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, 1980 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 which has been applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Toronto, Canada
February 6, 1981

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Actuary's Certificate and Report

I have made the valuation of the actuarial liabilities of The Excelsior Life Insurance Company for its balance sheet at December 31, 1980 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 6, 1981

Statement of Net Income

For the year ended December 31, 1980
(with comparative figures for 1979)
(thousands of dollars)

	1980	1979
Revenue		
Premiums earned	$47,254	$37,696
Investment income	5,395	4,277
	52,649	41,973
Claims and expenses		
Claims incurred and adjustment expenses	33,459	25,728
Acquisition expenses	11,009	9,417
General expenses	9,212	7,646
Investment expenses	596	537
	54,276	43,328
Net operating loss before income taxes	(1,627)	(1,355)
Income taxes recovery	931	845
Net operating loss	(696)	(510)
Net realized capital gains (net of applicable taxes of $21,000, 1979 – $179,000)	117	613
Net income (loss)	$ (579)	$ 103

See accompanying notes to financial statements.

Statement of Retained Earnings (Deficit)

For the year ended December 31, 1980
(with comparative figures for 1979)
(thousands of dollars)

	1980	1979
Unappropriated:		
Balance – beginning of year	$ 980	$2,169
Net income (loss)	(579)	103
Transfer to appropriated retained earnings	(784)	(1,292)
Balance – end of year	$ (383)	$ 980
Appropriated:		
Balance – beginning of year	$1,960	$ 668
Transfer from retained earnings	784	1,292
Balance – end of year	$2,744	$1,960

See accompanying notes to financial statements.

Balance Sheet

December 31, 1980
(with comparative figures for 1979)
(thousands of dollars)

Assets	1980	1979
Cash and short term investments	$ 7,651	$17,333
Bonds and debentures	19,105	2,541
Stocks	4,000	4,340
Mortgage loans	16,652	16,485
Amounts due from agents	9,819	10,325
Due from parent company	9,270	—
Property occupied by the company	2,447	2,461
Furniture and fixtures	450	432
Other assets	1,930	1,430
Deferred acquisition expenses	2,453	2,567
	$73,777	$57,914

Liabilities and Shareholders' Equity	1980	1979
Insurance and other liabilities		
Provision for unpaid claims	28,508	19,217
Unearned premiums	26,304	23,930
Insurance taxes payable	950	746
Amounts due to affiliates	1,455	175
Other liabilities	1,987	3,784
	59,204	47,852
Deferred income tax	139	1,049
Shareholders' equity		
Capital stock	1,900	1,900
Contributed surplus	10,173	4,173
Appropriated retained earnings	2,744	1,960
Retained earnings (deficit)	(383)	980
	14,434	9,013
	$73,777	$57,914

On behalf of the Board

Gordon N. Farquhar

Director

Director

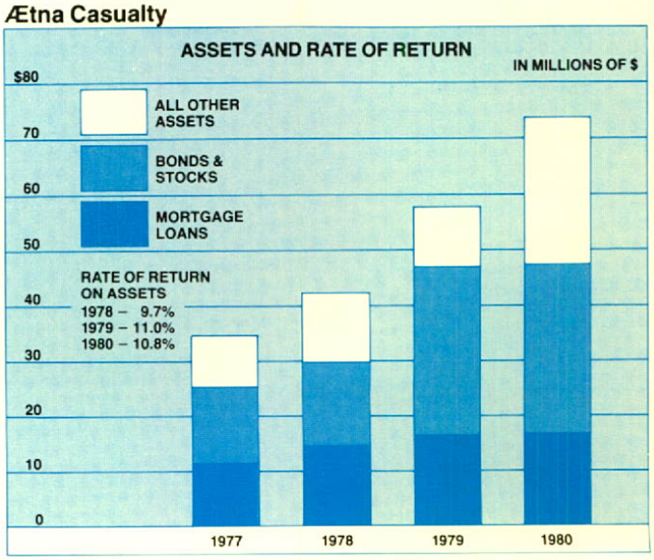
See accompanying notes to financial statements.

Statement of Changes in Invested Resources

For the year ended December 31, 1980
(with comparative figures for 1979)
(thousands of dollars)

	1980	1979
Funds provided		
From operations		
Net income (loss)	$ (579)	$ 103
Depreciation and amortization	131	141
Increase in provision for unpaid claims and unearned premiums	11,665	13,893
Decrease in deferred acquisition expense	114	91
Decrease in deferred income tax	(910)	(306)
Increase in due from parent company	(9,270)	—
Other	(307)	(2,518)
Funds provided from operations	844	11,404
Surplus contributed by parent company	6,000	—
Bonds sold or matured	1,369	20
Stocks sold	1,093	1,302
Mortgage loans repaid	437	1,455
Total funds provided	$ 9,743	$14,181
Funds applied		
Bonds purchased	$17,918	$ 1,031
Stocks purchased	753	1,515
Depreciable assets purchased	150	119
Mortgage loans disbursed	604	3,163
Increase (decrease) in cash and short-term investments	(9,682)	8,353
Total funds applied	$ 9,743	$14,181

Ætna Casualty



See accompanying notes to financial statements.

Notes to Financial Statements

For the year ended December 31, 1980

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 related to unearned premiums, which expenses are comprised of commissions and premium taxes, are deferred by major underwriting lines and amortized to income over the periods in which the premiums are earned. The method followed in computing the deferred acquisition costs limits the amount of the deferral to its net realizable value by giving consideration to the effect of losses and loss expenses expected to be incurred as the premiums are earned.
   d) 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.
   e) 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.

2. Bonds, stocks and mortgage loans:

(thousands of dollars)

	1980		1979	
	Cost or Amortized Cost	Government Market Value	Cost or Amortized Cost	Government Market Value
Bonds	$19,105	$18,037	$ 2,541	$ 2,306
Stocks – common	1,714	1,815	3,100	3,767
Stocks – preferred	2,286	2,578	1,240	1,303
Mortgage loans	16,652	15,076	16,485	15,357
	$39,757	$37,506	$23,366	$22,733

3. Depreciable assets:

(thousands of dollars)

	1980			1979		
	Cost	Accumulated Depreciation	Net Value	Cost	Accumulated Depreciation	Net Value
Property occupied by the company	$2,537	$ 90	$2,447	$2,517	$ 56	$2,461
Furniture and fixtures	963	513	450	833	401	432
	$3,500	$603	$2,897	$3,350	$457	$2,893

4. Capital stock and contributed surplus:
The company has authorized 100,000 redeemable preferred shares of the par valueof $100 each issued in series and 300,000 common shares of the par value of $50 each. At December 31, 1980, 38,000 common shares had been issued. During the year, the parent company paid in $6,000,000 in cash to contributed surplus.

5. Pension plan:
The company has a non-contributory pension plan covering substantially all salaried employees. Provision for pension costs in 1980 was $110,000 and $159,000 in 1979. There is no unfunded past service liability.

6. 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 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, 1980 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, 1980 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 6, 1981

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Five Year Summary

($000's omitted)

	1980	1979	1978	1977	1976
THE EXCELSIOR LIFE INSURANCE COMPANY					
Condensed Income Statement					
Premium income	$232,043	$208,753	$181,231	$149,613	$115,214
Investment income	92,890	80,285	64,556	44,642	35,703
	324,933	289,038	245,787	194,255	150,917
Current and future benefits	266,073	234,949	199,451	160,919	123,789
Other expenses	50,257	45,589	40,516	28,055	24,144
	316,330	280,538	239,967	188,974	147,933
Net operating earnings	$ 8,603	$ 8,500	$ 5,820	$ 5,281*	$ 2,984*
Condensed Balance Sheet					
Invested assets	$575,909	$515,940	$464,673	$397,630	$333,992
Separate fund assets	241,443	238,459	190,825	140,129	116,760
Other assets	56,006	43,626	36,228	33,025	25,312
	$873,358	$798,025	$691,726	$570,784	$476,064
Actuarial liabilities	$522,376	$469,707	$413,877	$354,528	$329,597
Separate fund liabilities	241,443	238,459	190,825	$140,129	116,760
Other liabilities	24,817	17,269	25,931	26,043	9,513
Capital and retained earnings	84,722	72,590	61,093	50,084	20,194
	$873,358	$798,025	$691,726	$570,784	$476,064*

*These figures do not include the effects of the statutory accounting changes adopted in 1978.

	1980	1979	1978	1977	1976
ÆTNA CASUALTY COMPANY OF CANADA					
Condensed Income Statement					
Premiums earned	$ 47,254	$ 37,696	$ 31,422	$ 23,621	$ 2,954
Investment income	5,395	4,277	2,864	1,389	484
	52,649	41,973	34,286	25,010	3,438
Claims incurred	33,459	25,728	17,860	14,171	1,793
Other expenses	19,886	16,755	14,717	9,959	1,698
	53,345	42,483	32,577	24,130	3,491
Net operating earnings (loss)	$ (696)	$ (510)	$ 1,709	$ 880	$ (53)
Condensed Balance Sheet					
Invested assets	$ 49,855	$ 43,160	$ 31,905	$ 25,215	$ 8,714
Other assets	23,922	14,754	9,424	9,605	3,674
	$ 73,777	$ 57,914	$ 41,329	$ 34,820	$ 12,388
Provision for unpaid claims	$ 28,508	$ 19,217	$ 13,705	$ 9,670	$ 1,576
Unearned premiums	26,304	23,930	15,549	15,069	4,295
Other liabilities	4,531	5,754	3,165	2,956	431
Shareholders' equity	14,434	9,013	8,910	7,125	6,086
	$ 73,777	$ 57,914	$ 41,329	$ 34,820	$ 12,388

Board of Directors

Gordon N. Farquhar
President
Toronto, Ontario

William O. Bailey
President
Ætna Life and Casualty Company
Hartford, Connecticut

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

Donald N. Byers
Partner
Byers, Casgrain
Montreal, P.Q.

Fraser M. Fell
Partner
Fasken & Calvin
Toronto, Ontario

Robert Lesage
Partner
Amyot, Lesage, Bernard, Drolet et associés
Quebec, P.Q.

A. Bruce Matthews
Chairman and Director
Dome Mines Limited
Toronto, Ontario

J. Donald Mingay
Management Consultant
Toronto, Ontario

H. Keith Morley
Chairman and Chief Executive Officer
Costain Limited
Willowdale, Ontario

Arne R. Nielsen
President and Chief Executive Officer
Canadian Superior Oil Ltd.
Calgary, Alberta

James W. Westaway
Chairman
Barbecon Inc.
Toronto, Ontario

Dean E. Wolcott
Senior Vice President
Life Division
Ætna Life and Casualty Company
Hartford, Connecticut

Officers

Gordon N. Farquhar
President and Chief Executive Officer

Insurance Operations

Michael A. Stephen
Executive Vice President

* * *

Life Division

David J. Congram
Vice President

John R. Cranston
Life Division Controller

Gary M. Hodgson
Associate Actuary, Life

R. Allan Ireland
Associate Actuary, Financial

Pierre Duchaine
Director of Life Operations, Quebec

John A. Forbes
Regional Director of Agencies, Central

George R. Hill
Regional Director of Agencies, Western

David A. Reid
Director of Marketing Services

R. Blake Tufford
Director of Underwriting Services

Donald F. Frost
Underwriting Officer

John W. MacDougall
Claims Officer

Group Division

Thomas E. Jarvis
Vice President

Robert G. Camp
Director Group Marketing

David S. Kent
National Accounts Executive

Irene A. Stone
Marketing Service Officer

James E. Gray
Director Field Operations

J. Melvin Norton
Director Group Life and Health

Peter H. Gray
Group Administration Officer

Brad J. Reddick
Claims Officer

Robert A. Rasmussen
Actuary

George W. Bell
Associate Actuary

Casualty Division

Irwin E. Doxsee
Director Administration

David J. Oakden
Actuary

Robert E. Watts
Director Insurance Operations

Financial Division

Donald F. Duncan
Senior Vice President and
Corporate Actuary

* * *

John A. Clark
Director of Accounting Operations

Paul M. Deighton
Auditor

Dennis J. Schettler
Associate Actuary

Office of the Corporate Secretary

C. John Stubbs
Vice President, Secretary
and General Counsel

Alan S. Crawford
Director of Public Affairs

David C. Juvet
Assistant Secretary and Counsel

Investment Division

Barry F. H. Graham
Vice President and Treasurer

William H. Alexander
Associate Treasurer

Robert S. Anglin
Associate Treasurer

Terrence M. Whalen
Associate Treasurer

Administration Division

Walter C. Jones
Vice President

William D. Jack
Director of Corporate Systems Services

Paul D. Sharkey
Systems Development Officer

Peter L. Wright
Systems Operations Officer

Winston G. Muschett
Director of Administrative Services

Glen J. Stewart
Director of Personnel

Industry Affairs/Corporate Marketing

H. George Martin
Vice President and General Manager
for Canada

* * *

Medical Services

Milton H. Henderson
Medical Director

Andrew I. Armstrong
Associate Medical Director

Isobel D. Moon
Assistant Medical Director

The officers listed are
as of March 1, 1981.

Offices

LIFE OFFICES

Eastern Region	
Halifax, Nova Scotia	J.D. Taylor
Quebec, Quebec	I. Gagnon, CLU
Montreal, Quebec (Dorchester)	J. Cado
Central Region	
Toronto, Ontario (Eglinton)	D.K. Pike, CLU
Toronto, Ontario (North)	A.K.L. Hui, CLU
Toronto, Ontario (Toronto)	T.M. Furey
Ontario West	N.P. Villani
Kitchener, Ontario	R.G. Millard, CLU
London, Ontario	
Windsor, Ontario	V.A.G. Watson
Sudbury, Ontario	
Western Region	
Winnipeg, Manitoba	M.C. Evdokimenko, CLU
Regina, Saskatchewan	J.M. Cerato
Calgary, Alberta	E.G. Smith, CLU
Calgary, Alberta (Centre)	S.A. Brown, CLU
Edmonton, Alberta	K. Lang
Kelowna, British Columbia	J.G. Rea
Vancouver, British Columbia	G.A. Brown
Victoria, British Columbia	D.L. Ogilvie
Managing General Agencies	
Saint John, New Brunswick	Provincial Insurance Agency Ltd.
Montreal, Quebec	Gérard V. Blais Inc.
Montreal, Quebec	Decelles, Almela et Associés Inc.
Montreal, Quebec	Dubreuil, Lefebvre, Roy, Inc.
Montreal, Quebec	J.P. Joannette et Associés Inc.
Montreal, Quebec	Les Agences Charron Ltée
Ottawa, Ontario	McCue Insurance Agencies Ltd.
Toronto, Ontario	Central Brokerage
Toronto, Ontario	Diversified Insurance Agencies Inc.
Toronto, Ontario	Mont Garrett & Associates Insurance Agency Ltd.
Hamilton, Ontario	John Beaupre Insurance Agencies Ltd.
Kitchener, Ontario	Daniel Burjoski & Associates Insurance Agency Inc.
London, Ontario	Dwight Goertz & Associates Insurance Agency Ltd.
London, Ontario	Farrow Insurance Agencies Ltd.
Leamington, Ontario	K. Drummond Insurance Agencies Ltd.
Wallaceburg, Ontario	Great Southwestern Life Insurance Agency Inc.
Winnipeg, Manitoba	Ewood Insurance Agencies
Calgary, Alberta	Chimo Life Agencies Ltd.
Vancouver, British Columbia	Quest Insurance Services Ltd.

GROUP OFFICES

Montreal, Quebec	G.H. Hough
Toronto, Ontario	M.B. Kitchen
Hamilton, Ontario	J.A. Robson
Edmonton, Alberta	C.M. Reid
Calgary, Alberta	B.A. Bunker
Vancouver, British Columbia	R.G. Sloane
National Trusteed-Welfare	W.D. Anderson

CASUALTY OFFICES

General Manager Eastern Region	G.E. Jackson
Halifax, Nova Scotia	G.J. Murray
Quebec, Quebec	J.A. Morrisson
Montreal, Quebec	R.J. Pugliese
General Manager Western Region	C.R. Painter
Toronto, Ontario	Paddy McGouran
Hamilton, Ontario	Claudette Kyle
London, Ontario	Fred Silvestri
Calgary, Alberta	D.K. Lough

Ætna Casualty Company of Canada
The Excelsior Life Insurance Company
Twenty Toronto Street
Toronto, Ontario M5C 2C4