

THE NORTH AMERICAN GROUP  
ANNUAL REPORT 1993



North American Life

NORTH AMERICAN LIFE ASSURANCE COMPANY

Howard Ross Library  
of Management

MAY - 9 1994

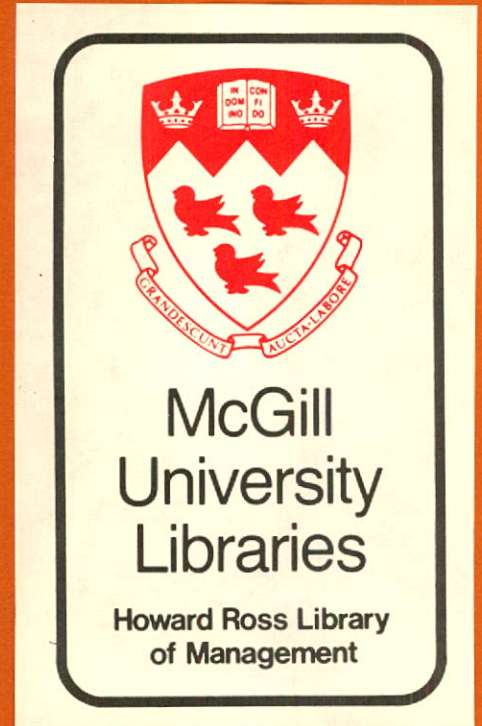
Annual Report  
MCGILL UNIVERSITY



This is the 113th Annual Report of North American Life Assurance Company. It is also the first Annual Report highlighting The North American Group – our diversified family of financial services companies.

## THE NORTH AMERICAN GROUP

NORTH AMERICAN LIFE ASSURANCE COMPANY	The cover of this report shows our Head Office at The North American Life Centre in North York, Ontario. The people pictured represent the diverse skills and abilities of the women and men who work throughout our family of businesses.
EDGECOMBE GROUP INC.	They are: David Bay, John Bucks, Karoline Chan, Fred Kelly, Michelle Kenney, Ashraf Matta, Sudesh Nayar, Andrea Perry, Steve Poch, Rochelle Ross, Stephen Smith, Grace Sturgeon, Terry Toczyski.
ELLIOTT & PAGE LIMITED	
NATIONAL RESOURCES MANAGEMENT LIMITED	
NORTH AMERICAN SECURITY LIFE INSURANCE COMPANY	
NORTH AMERICAN TRUST COMPANY	
SEAMARK ASSET MANAGEMENT LTD.	



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VERSION FRANÇAISE: Pour obtenir la version française du rapport annuel, veuillez vous adresser au Service des ressources humaines.



# KEY FINANCIAL INDICATORS

## TOTAL ASSETS

(billions of dollars)

93	8.9
92	8.5
91	5.0
90	4.7
89	4.2

## TOTAL ASSETS UNDER MANAGEMENT

(billions of dollars)

93	18.4
92	14.5
91	8.8
90	7.7
89	6.3

## TOTAL REVENUE

(billions of dollars)

93	1.7
92	1.5
91	1.4
90	1.4
89	1.2

## SURPLUS

(billions of dollars)

93	.56
92	.53
91	.52
90	.46
89	.41

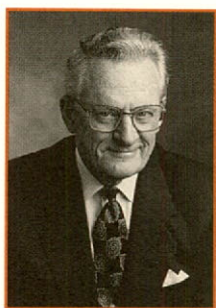
## LIFE INSURANCE IN FORCE

(billions of dollars)

93	84.0
92	75.7
91	64.7
90	57.2
89	51.3

1993 was a year in which our strategies began to yield positive results. This report describes some of the key actions taken – to meet customer needs, to leverage our capabilities and to achieve healthy and sustainable growth.

## A MESSAGE FROM THE DEPUTY CHAIRMAN



William E. Bradford

This is the 113th Annual Report of North American Life Assurance Company. It is also the first Annual Report highlighting The North American Group – our diversified family of financial services businesses.

In addition to North American Life Assurance Company, the businesses in The North American Group include North American Security Life, North American Trust, Elliott & Page Limited, Edgcombe Group Inc., Seamark Asset Management Ltd. and NAL Resources Management Limited.

The Board of Directors of North American Life established The North American Group Inc. to act as a management company, directing the affairs of all our businesses, on October 5, 1993. The group structure is intended to free senior management time to focus on the strategic issues that affect all of our businesses, to clarify management responsibility for the operations of all of our businesses, and to provide a forum to realize the greatest possible benefits from the total strengths and capabilities of the companies in the Group.

During 1993, we had the honour of being invited to act as the sponsor of Canada Quality Month – a national effort to promote quality and competitiveness throughout the Canadian economy. As part of our sponsorship, the members of our management team had the opportunity to share insights and ideas with managers from many other organizations, in our industry and others, in Canada and the U.S., who are also involved in the quality journey. The experience confirmed our belief that the pursuit of total quality is one of the keys to the long term success of all our enterprises.

“Quality” can be defined as “increasing customer satisfaction dramatically, while reducing costs and cycle time radically”. At North American Life, we began our efforts to become a quality organization with the realization that we needed to increase our understanding of our real customers – the men, women and families – and organizations large and small – who rely on our products and services to help them achieve their own objectives.



Achieving the best possible understanding of our customers, their needs and their aspirations, and developing the capacity to respond to those needs more effectively than competitors is a fundamental strategy of the companies in The North American Group.

In our search for quality, we redesigned our organizational structure, with clearer accountabilities and focus on our identified markets. We continue to adapt and apply new technologies to our businesses. We are alert for opportunities to build on our special capabilities and to leverage the competitive advantages we have created throughout our family of companies. We are moving aggressively to capitalize on the linkages among our businesses – to optimize costs and to provide enhanced value for our customers. We have provided the women and men who work throughout The North American Group with better tools and more effective business strategies, and we have challenged them to excel. It's working.

1993 was a year in which these strategies began to yield positive results in many quarters. That is the main focus of this report: the hard and measurable results of our operations during 1993. We wish to highlight some of the key actions we have taken in various parts of our group – to clarify and strengthen our customer focus, to meet specific needs of identified customer groups profitably and effectively,

to take advantage of opportunities, to leverage our proven capabilities and to achieve healthy and sustainable growth.

For the most part, the competitive and investment climates continued to be tough and demanding during the year, but we have succeeded in reaching our financial goals for 1993. We enter the new year confident that the companies in The North American Group are positioned for consistent and profitable growth in the future.



**William E. Bradford**

*Deputy Chairman and  
Chief Executive Officer*



1993 was a year of solid growth and achievement for our family of financial services businesses, with major improvement in insurance operations, higher investment earnings and lower operating expenses.

## DIRECTORS' REPORT TO POLICYHOLDERS



Brian L. Moore

### 1993 OPERATING RESULTS

1993 was a year of solid growth and achievement for our family of financial services businesses.

Consolidated net income for the year was \$25.4 million, a substantial increase from \$7.4 million in 1992. This performance was due primarily to a major improvement in insurance operations featuring good growth in premium income, much higher operating earnings, higher investment earnings – including a substantially improved contribution from fee income – and lower general operating expenses. Although we added to our provisions for losses on mortgages to reflect current real estate market values, these changes were offset by improvements in oil and gas values and income. Contributions from North American Life's affiliated companies showed improvement over the previous year, with the exception of North American Trust where higher loan loss provisions and a restructuring charge produced a loss for the year.

Company assets grew by \$0.4 billion to \$8.9 billion during 1993. Segregated funds increased by more than 70% with a growth of \$2 billion to \$4.8 billion.

Investment income for the year was \$576.5 million – an increase of 8%. Strong performances in bonds, equities and resource properties were only partially offset by provisions for mortgage losses. We continue to take a very conservative approach to the management of our investments. Our bond portfolio, of which more than 90% is graded "A" or higher, is comprised primarily of government and high quality corporate bonds.

During the year, the Company added \$232 million to total capital. The majority of the added capital came from the successful completion of a \$200 million subordinated debenture issue. At year end North American Life's total capital position remains among the strongest in the Canadian life insurance industry. During the year, our strong financial position was confirmed by high ratings from both Standard & Poor's: AA (Excellent), and A.M. Best: A (Excellent).



**North American Life Assurance Company** experienced a year of good sales growth and substantial improvements in earnings. This was attributable to a major increase in underwriting gains, higher returns from reinsurance and net investment income, and growth in premium revenue. Our total premium income increased by 13% to just over \$1 billion – a milestone for the Company.

**North American Security Life** achieved over \$1.3 billion U.S. in new variable annuity sales in the U.S. market – a gain of more than 100% over 1992's record sales. This success resulted from an aggressive marketing program developed by Security Life's marketing partner – Wood Logan Associates, combined with Security Life's reputation for service and product quality. North American Security Life is among the top ten variable annuity insurers in the U.S.

**NAL Resources Management Limited** increased cash flow by some 50% over last year through an aggressive program of horizontal drilling to increase production from our major Nottingham oil field in Saskatchewan. In total, the Company's application of this technology over the last three years has significantly enhanced the value of its asset base.

For the third year in a row, **Elliott & Page** achieved record results. E&P's pension, mutual fund and total assets under management grew significantly during the year.

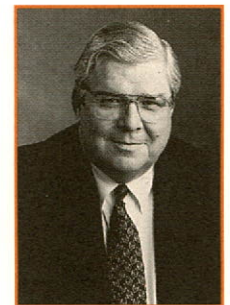
**North American Trust** reported significant losses for the year, in large measure a result of loan loss reserves established for the portfolio acquired as part of FirstCity Trust. During the year, the Trust Company initiated a major reorganization. The changes will increase the efficiency of the branch network, with a greater proportion of the total workforce directly engaged in customer sales and service. The new products and services we are adding will help meet our customers' needs.

On balance, our group of businesses has performed well in the difficult economic climate of 1993, meeting or exceeding the major financial goals we set as the year began.

#### THE ESTABLISHMENT OF THE NORTH AMERICAN GROUP

On October 5, 1993, the Board of Directors established The North American Group Inc. to act as a management company for all of our businesses.

The businesses that North American Life has built up over the years have grown, both as individual enterprises and in terms of their significance within North American Life's total business and now represent about half of the Company's total assets. In the process, North American Life has evolved from a mutual insurance company with a few subsidiaries to a diversified family of financial services businesses.



John G. Lynch



The North American Group structure equips us to realize the greatest possible benefits from the wide range of capabilities that exist in our diverse family of Companies.



Fred W. Gorbet

The group structure involves a new division of responsibilities among the five key members of our senior management team to ensure both an appropriate focus on strategic, group-wide issues and clear accountabilities for the operations of all of our businesses.

**William E. Bradford** has been appointed Deputy Chairman and C.E.O. of North American Life Assurance Company and The North American Group Inc.

**Brian L. Moore** has been appointed President of The North American Group Inc. and Vice Chairman of North American Life Assurance Company. He will continue to have specific responsibility for North American Life Financial Services Inc. as Chairman and C.E.O. of that organization, with a special focus on North American Trust and North American Security Life.

**John G. Lynch** has been appointed Executive Vice President of The North American Group Inc. and President and Chief Operating Officer of North American Life Assurance

Company. He is directly responsible for the ongoing operations of the life insurance company.

**Fred W. Gorbet** has been appointed Executive Vice President of The North American Group Inc. and President and Chief Operating Officer of North American Life Financial Services Inc. Working with the management of the other companies in The North American Group, he is responsible for their ongoing operations and, in particular, for taking advantage of opportunities for enhanced linkages and cooperation among the members of the Group.

**Peter W. Currie** has been appointed Executive Vice President and Chief Financial Officer for The North American Group Inc. He remains responsible for financial governance and overall corporate services as well as integration and rationalization of services shared among the various companies in the Group.

The senior management group will focus on longer term strategic considerations, including measures to assure



that our companies have access to the capital they will need to grow and prosper.

This new structure equips us to realize the greatest possible benefits from the wide range of capabilities that exist in our diverse family of Companies.

### CORPORATE GOVERNANCE – BEYOND COMPLIANCE

Corporate governance refers to all of the processes, structures and relationships through which the board and senior management of an enterprise direct, guide and oversee the activities of the organization, to ensure that the enterprise meets all of its legal, moral and business responsibilities.

The businesses that make up The North American Group operate under a range of different regulatory regimes and are required to meet different regulatory requirements. All of these regulatory systems, however, have in common the principle that the best form of regulation is self-regulation – a regime in which each enterprise, its directors, officers and employees assume shared and personal responsibility for the activities of the organization.

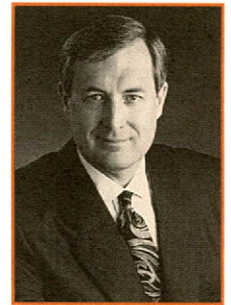
We are refining the corporate governance framework which addresses all of the issues of accountability and regulatory compliance. Our objective is an environment in which the obligation

to discharge all of the fiduciary, moral and leadership responsibilities that the members of the organization share is clearly recognized and integrated into all aspects of the business.

### THE "HIGHER PURPOSE" GOALS: EXPRESSING OUR INDIVIDUAL VALUES THROUGH THE NORTH AMERICAN GROUP

The energy that has driven the "quality evolution" within North American Life and the other members of The North American Group has increasingly been a reflection of the standards and values of the individuals who work throughout all of our businesses. In fact, one of the defining characteristics of the quality organization is that it becomes an organization within which people work hard to live up to *their own standards*.

The gains our companies have made are very much a reflection of the pride, the self-respect and the high standards of personal conduct and responsibility that the women and men who work throughout our businesses bring to their tasks. Those personal values have been expressed in our continuing leadership in support for The United Way and other community causes of interest to our employees. During 1993, North American Life's employees won the Metropolitan Toronto United Way's "Spirit Award" for



Peter W. Currie

The companies of The North American Group have made substantial progress in rebuilding profitability during 1993, while addressing such strategic issues as access to capital.



Gordon P. Osler

the best workplace campaign for companies with more than 250 employees. The Directors congratulate them and we share their pride in this achievement.

During 1993, through our "Higher Purpose" initiative, management has invited employees throughout the Company to suggest additional ways in which we can express our shared values in the operations of our businesses. As a result of suggestions from our employees, we are proposing to establish strong links between The North American Group and various community and educational organizations to provide effective support for education in our local communities.

#### ACQUISITION OF CAPITAL

New Canadian regulatory legislation has removed some of the limits that North American Life Assurance, as a mutual company, had in access to capital. We are taking advantage of the new opportunities to strengthen our capital base.

During 1993, North American Life Assurance launched a successful \$200 million Eurobond issue in the U.K. money market. Its completion strengthens our capital position significantly and enhances our flexibility and our ability to move quickly to take advantage of opportunities for profitable growth.

Our group of companies can also benefit from access to capital. To that end, the Directors will be asking policyholders at the Annual Meeting to authorize the Company to create several classes of preferred shares which will only be issued after a careful review to ensure that policyholders' interests are preserved.

We are continuing to evaluate other ways of strengthening our long term capital base, including the potential benefits of the various forms of mutual reorganization now permitted under federal legislation.

In total, the measures we are taking to strengthen our capital position will ensure that we are able to take full advantage of opportunities for continued profitable growth among our group of companies.



## A STRATEGY FOR EXPANSION IN THE U.S. MARKET

During 1993, the Board of Directors approved a strategy for The North American Group's future expansion in the United States.

We have identified significant opportunities in selected Personal Markets, among small and medium sized corporations and in the Sponsored Markets. As we pursue these opportunities, we will focus on leveraging our skills, using a combination of partnerships and selective use of reinsurance to limit our capital exposure in these markets. This will make it possible for us to grow and establish our presence as an outstanding provider of asset accumulation and protection products in selected U.S. markets.

These strategies are already being successfully applied in our U.S. operations. North American Security Life uses expert third party money managers rather than attempting to duplicate that expertise itself. In North American Life's U.S. Sponsored Markets, we provide program administration through a U.S. partner, using extensive reinsurance to minimize calls on our own capital.

This disciplined, orderly and managed focus will ensure that we are able to achieve healthy growth in the U.S. market without significant risks or extensive capital requirements.

## THE OUTLOOK FOR THE FUTURE

There are clear signs now that the North American economy is beginning to pull out of what has been the most protracted economic recession since the Great Depression of the 1930s. We anticipate continued healthy expansion in the U.S. economy and a return to modest but stable economic growth in Canada, accompanied by low interest rates and low rates of inflation in both countries.

The companies of The North American Group have made substantial progress in rebuilding profitability during 1993, while addressing such strategic issues as our access to capital and the organizational structure of our various businesses and of the Group as a whole.

The Board of Directors is confident that The North American Group will compete and grow profitably in our selected markets in both Canada and the United States during 1994.



**Gordon P. Osler**

*Chairman of the Board*



**William E. Bradford**

*Deputy Chairman and  
Chief Executive Officer*

Our group of businesses performed well on balance in the difficult economic climate of 1993, meeting or exceeding the major financial goals we set as the year began.

## REVIEW OF OPERATIONS

### THE NORTH AMERICAN GROUP: GROUP-WIDE STRATEGIES

The North American Group structure aims to provide each of our businesses with the resources and autonomy to meet the needs of its customers. At the same time, we are working to maximize the benefits from cooperation among our group of companies. There are a number of group-wide strategies that we are applying to help meet these goals.

### INTEGRATION OF CORPORATE SERVICES

During 1993, we integrated some corporate services to reduce duplication and to increase our capacity to meet the needs of our businesses.

In particular, combining the Human Resources function for North American Life and North American Trust reduces costs and increases the human resource and organizational development expertise available to both companies.

During 1993 we updated our employee benefits programs with the introduction of *Beneflex* – a flexible, new employee benefits plan – to all of our Canadian operations. We also launched *Advance Notice*

– a job posting procedure that helps employees to transfer within our group of companies. This increases the range of career opportunities available to individuals and helps to make the best possible use of the talents of all our people.

Legal services are being coordinated for the Group as a whole, and we are moving towards greater integration of Information Systems, and various accounting and financial management functions.

Fred Gorbet, President and Chief Operating Officer of North American Life Financial Services Inc., is coordinating group-wide efforts to identify more opportunities for cooperative ventures among the members of the Group and for distribution of our companies' products through all of the Group's distribution channels.

### THE QUALITY EVOLUTION CONTINUES

Throughout The North American Group we are continuing the journey towards total quality that began in 1989 in North American Life Assurance Company.

There is still a long way to go, but people throughout our family of businesses are responding to the challenge of transforming each of our companies into a total quality organization. More and



**THE QUALITY EVOLUTION**  
**KEY TO COMPETITIVE SUCCESS**



We show our  
commitment to quality  
in many ways – from Canada Quality  
Month to our outstanding support for  
the United Way, our “higher purpose  
goals” and the quality process we  
use to run our businesses.



more, our people work as members of teams to achieve that goal. Management's role is to provide the tools and the basic direction needed so that people can use their skills, knowledge, experience and creativity to live up to their own high standards of performance. We believe this is the real key to competitive success.

### BUILDING COMPETITIVE ADVANTAGE THROUGH TECHNOLOGY

The companies in The North American Group are pursuing an aggressive strategy of adopting technology that will contribute to our ability to meet our customers' needs profitably. During 1993, new technologies have made major contributions to the success our businesses have enjoyed in their markets across North America.

North American Life's *Customer Service Integration* and the establishment of our central Service Centre for Personal and Sponsored Markets was completed during 1993. Our Customer Service Representatives all have extensive training in insurance principles, product lines and systems procedures. Our new PC-based system provides instant access to information about each customer's products and services so the Representative can deal more quickly and effectively with customer enquiries.

North American Life brought the *New Business System* on line during 1993. We redesigned the business processes used to issue new policies to eliminate unnecessary steps. We have built underwriting rules and decision criteria into the new system and it is programmed to request necessary additional customer information automatically. Now, the employee who receives a straightforward policy applica-

tion can handle the process from start to finish. This has reduced the time required to process these applications from up to seven days to as little as one hour.

North American Life installed advanced software support for pricing Immediate Annuity products in Pension Group Offices. During the year, we implemented two major new information management systems in Sponsored Markets operations – the IMAC and XYCOR systems – to provide better and faster service to Association and Creditor members. These systems increase the speed and accuracy of billing, collections and policy issuance.

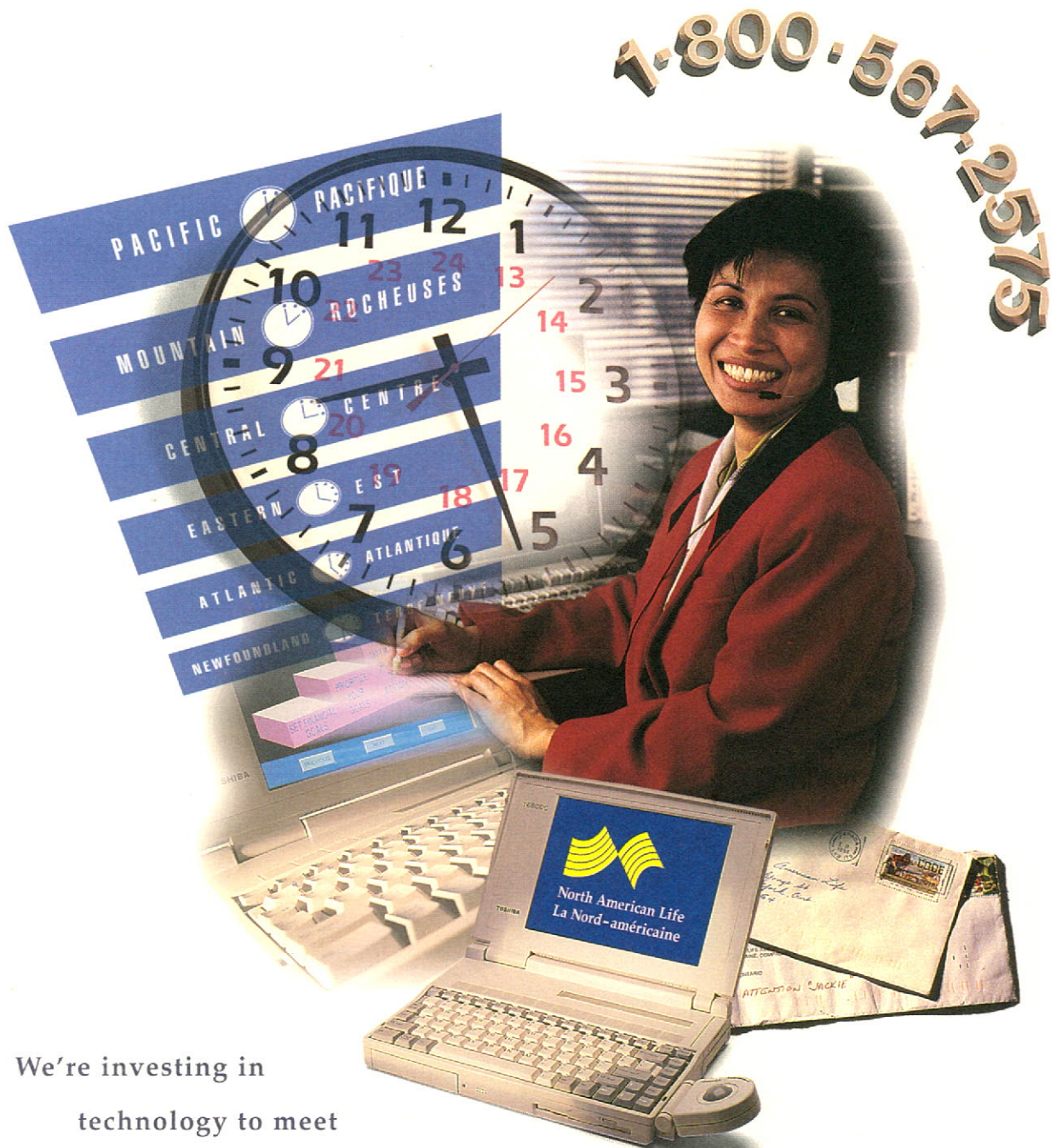
During 1993, North American Security Life became one of the first companies in our industry to install *Electronic Data Interchange* or EDI. The EDI links with Smith Barney Shearson, one of the largest broker-dealers with which Security Life does business, make it possible to process applications and issue annuity contracts electronically within 24 hours. North American Security Life is working to establish EDI links with other major broker-dealers to provide industry-leading service across the fast growing U.S. variable annuity market.

North American Trust began implementing its *Relational Banking System* during 1993, with implementation completed in all North American Trust branches by the end of February 1994. This system simplifies and automates a wide range of processes that had been done manually, providing the Company with better and more timely information. It also reduces the time required for administration, freeing branch staff to spend more time on sales and service to respond to customer needs.



# INVESTING IN TECHNOLOGY

INCREASING CUSTOMER SATISFACTION



We're investing in  
technology to meet  
our quality goal of increasing  
customer satisfaction dramatically,  
while reducing costs and cycle  
time radically.



## NORTH AMERICAN LIFE

During 1993, North American Life completed the restructuring of our organization around "Market Managers" responsible for each of our Markets: Corporations, Personal and Sponsored. This structure ensures a strong Company-wide focus on customers in our selected Canadian and U.S. markets.

We have increased our emphasis on "Customer Listening" to identify opportunities for improvement in every aspect of our business from product and services design to marketing, distribution and delivery. We have changed our marketing and advertising strategies to reflect a sharper focus on identified needs and opportunities in our specific high potential markets. The lessons we're learning from our Customer Listening guide every aspect of our operations in the Corporations, Personal and Sponsored Markets.

## CORPORATIONS MARKETS

We experienced healthy growth in the Corporations Markets during 1993. Pension sales were \$111.7 million – an increase of 4% over 1992 levels. Group life and health insurance sales were \$73.3 million – an 11% gain, with growth in both the Canadian and U.S. markets. Renewals were strong for both insurance and investment products.

We carried out extensive consumer research to help build our understanding of customer needs, expectations and priorities. We are using this learning to set standards and focus resources on improvements in key performance areas.

We were guided by the results of this customer listening as we developed improved customer information and marketing materials to support our Registered Retirement Income Fund (RRIF). We responded to changes in pension legislation by introducing a Life Income Fund (LIF) product for the pension market. We are also taking advantage of our links with North American Trust to offer corporate customers North American Trust GICs and North American Trust loans for group RRSP purchases.

The Company is taking decisive action to enhance our ability to meet customer needs for disability income. In claims management, we have enhanced our rehabilitation services and we're using Electronic Funds Transfer to speed up payments to claimants. At the same time, we are working to improve profitability by basing our pricing on more refined market and risk segmentation.

## PERSONAL MARKETS

We made dramatic changes in our Personal Markets distribution and customer service systems in 1993 as a direct result of our customer listening. These changes serve to sharpen our focus on our specific target markets – "90s families", "prime lifers", and the Chinese-speaking community.

During the year we achieved a 77% increase in investment fund sales over 1992 levels. We streamlined and upgraded our sales force, realizing significant productivity gains. Our new sales of \$18 million in life insurance premiums and annuity sales of \$137 million are comparable to 1992 results and were achieved with fewer advisors.



# TARGETING OUR MARKETS

## RESPONDING TO CUSTOMER NEEDS



The  
lessons we're  
learning from "Customer Listening"  
guide every aspect of our business from  
product design to marketing, distribution  
and customer service.



We have made extensive changes in our distribution strategy, drawing on lessons learned from FNA Financial. FNA was set up in 1992 in Richmond Hill, Ontario to test a distribution model based on target marketing, with leads generated centrally and products and services delivered by salaried Financial Advisors. That approach has been successful, and we are integrating the FNA concept into the Company's distribution system.

Beginning in January 1994, North American Life Agencies have been renamed North American Life Financial Centres. The Centres are the heart of our new distribution system. Commissioned sales representatives are now known as "Independent Financial Advisors" – reflecting the widening set of products and expertise they have to offer. The Centres will also be staffed by salaried "Financial Advisors". We will continue to use the Richmond Hill Financial Centre as a test site for other innovative distribution approaches.

During the year, Personal Markets developed several new products, specifically tailored to meet customer needs in our selected markets. These include a Life Income Fund (LIF) product to address retirement income needs, and two new investment funds. We introduced the North American Trust RRSP Loan Program and North American Trust Self-Administered RRSPs into our Financial Centres.

We also revised our life product portfolio, introducing new "Term to 100" plans with added flexibility to be more responsive to customer needs. We introduced a fee-based whole life product designed to meet estate and tax planning needs of high net worth U.S. customers.

During 1993, we launched an individually underwritten out-of-country medical care plan aimed at our "prime lifers" market which generated \$8.9 million in new sales. In developing the new plan, we drew on the expertise North American Life has developed as a leader in providing out-of-country medical coverage in Sponsored Markets.

## SPONSORED MARKETS

North American Life pioneered the selling of life and health insurance and asset accumulation products through alumni groups and associations in Canada. We continue to be a leader in this market and, during 1993, we achieved strong growth in both the Canadian and U.S. markets.

Sponsored Markets life and health premiums for the year totalled \$98.4 million – a 13% increase over 1992 levels. RRSP assets under Sponsored Markets management grew to \$186.8 million. The investments made over the last two years to develop the creditor segment began to yield returns in 1993 with sales up 105% over 1992. Creditor sponsors accounted for 35% of new sales in 1993.

Guided by extensive research conducted among members of major sponsors, we continued to enhance products to meet evolving customer needs. This responsive approach produced excellent results. Sales generated by our largest sponsor – the Canadian Council of Professional Engineers – showed a 24% increase over 1992 levels.

Efforts to continuously improve response while reducing distribution costs also paid off in 1993. The Canadian Direct Marketing Association presented us with an award for a direct mail package



# REALIZING OUR POTENTIAL

## FOCUSED, RESPONSIVE AND INNOVATIVE



The companies  
of The North American  
Group will achieve healthy and  
sustainable growth by maintaining  
a customer focus, meeting the specific needs of identified  
customers and by innovating to leverage our proven  
capabilities in all key markets.



**During 1993 we set a clear direction for North American Trust, and initiated a major reorganization of the Company to strengthen our focus on customer sales and service.**

developed for the members of The Institute of Chartered Accountants of Ontario. The winning package achieved a 70% increase in response at a considerably lower cost than previous packages.

We are entering 1994 with 168 sponsors endorsing North American Life insurance packages, providing coverage to 400,000 members throughout Canada and the United States.

#### **NORTH AMERICAN SECURITY LIFE**

For North American Security Life, 1993 was a year of outstanding results in the variable annuities market and in the mutual funds business.

Total variable annuity sales for the year were U.S. \$1.34 billion – more than double 1992's record sales. This consolidated our position among the top ten U.S. variable annuity marketers, and strengthened the potential for future profitable gains in a market that is growing at a rate of 40% per year.

North American Security Life's total assets under management grew by 74% during 1993 to U.S. \$4 billion.

The Company has fashioned competitive advantages in marketing, technology and in money management. Wood Logan Associates markets North American Security Life's products very successfully, providing product training to brokers in investment firms.

Our investments are managed by leading investment managers including

Fidelity, Goldman Sachs Asset Management, Salomon Brothers Asset Management, Oechsle International and Wellington Management. With the introduction of the Value Equity and Strategic Bond funds in 1993, Security Life can offer investors a choice of 16 investment options.

North American Security Life introduced Venture Vision – a level load fund aimed at the high net worth market. Since its introduction at mid-year, Venture Vision has generated U.S. \$100 million in sales. Mutual fund sales also increased in 1993 – by 74% over 1992 levels to U.S. \$325 million.

Our standing in the marketplace, the strong growth in the total market, and our competitive advantages in marketing, money management and use of technology, all make us optimistic that North American Security Life will continue its rapid and profitable growth during 1994.

#### **ELLIOTT & PAGE LIMITED**

Elliott & Page manages specialty and balanced portfolios for pension funds, endowments, institutions, mutual funds and for North American Life.

During 1993, Elliott & Page's total assets under management increased by 20% to \$7.7 billion, with mutual fund growth of 26% – to \$527 million and \$400 million in new pension business, an increase of 70% over 1992 levels.

During the year, Elliott & Page began to expand sales of mutual funds through



other companies in The North American Group. We enjoyed success in pilot sales programs through North American Trust's Montreal Branch and FNA Financial.

Elliott & Page purchased the \$19 million American Growth Fund – a U.S. equity mutual fund – from Metropolitan Financial Advisors on April 1, 1993. The fund grew to \$70 million by year end. At the same time, North American Trust purchased the Cornerstone Balanced Fund and Canadian Growth Fund and retained Elliott & Page as investment managers for these funds.

Elliott & Page achieved strong balanced fund performance in 1993 by correctly anticipating the rebound in Canadian equity markets.

#### SEAMARK ASSET MANAGEMENT LTD.

Halifax-based Seamark Asset Management Ltd. provides investment counsel to institutional, pension fund and individual clients.

During 1993, Seamark's assets under management increased to more than \$400 million – a gain of almost 30% over 1992 levels. Seamark is also moving to a more aggressive approach to marketing and business development. In addition to continued growth in our traditional Atlantic Region market area, we are actively seeking expanded opportunities across Canada.

#### EDGECOMBE GROUP INC.

Edgecombe Group Inc. is the real estate affiliate of The North American Group, with a focus on asset management.

Despite the challenges facing the real estate industry, Edgecombe's property management business grew during 1993. By year end, we were managing over

9.1 million square feet in more than 130 buildings for over thirty different owners.

During 1993, Edgecombe was successful in leasing more than 70% of the office space in the second tower of The North American Life Centre in North York. The first tower, which is 100% leased, won the prestigious 1993 "Building of the Year" award for buildings of at least 500,000 square feet from the Building Owners and Managers Association of Metropolitan Toronto.

Edgecombe is active in sourcing new funding for traditional real estate properties and is becoming involved in financing infrastructure projects as well as sports and entertainment opportunities.

#### NORTH AMERICAN TRUST

North American Trust experienced a loss during 1993. In large part, this was the result of loan loss provisions made with respect to the loan portfolio obtained with FirstCity Trust. We believe that the steps taken to strengthen North American Trust during 1993 will begin to contribute to overall Group profitability in 1994.

Under recently appointed President Arkadi Kuhlmann, we have automated a wide range of administrative functions through the new Relational Banking System, so that a far larger proportion of our people now work in direct contact with customers in our branches. We removed two layers of management to reduce expenditures and increase overall responsiveness.

North American Trust is also adding new products and services to meet the needs of current clients and to attract new customers. During the year, North American Trust acquired six mutual

funds – renamed “The Cornerstone Funds” – to strengthen our position in the mutual fund and RRSP market. This increased our assets under administration by more than \$230 million. We can now offer North American Trust customers a competitive range of quality, diversified investment options. New sales during 1993 increased total mutual fund assets by more than \$100 million.

North American Trust re-entered the residential mortgage market during 1993. Combining competitive product features, pricing and customer service to build presence in the market, North American Trust succeeded in funding over \$190 million in new mortgages.

We are beginning to take advantage of opportunities for linkages with other members of The North American Group to provide better and more comprehensive service to all customers. During 1993 and early 1994 North American Trust cooperated with North American Life in the marketing of various RRSP products and RRSP loans, and we are confident there will be opportunities for additional profitable cooperation in the future.

The other members of The North American Group already make use of our mortgage management capability. We also provide expert mortgage administration services on a fee basis for a number of other pension funds and financial institutions. We anticipate continued significant growth in the volume of our mortgage management business.

## NAL RESOURCES MANAGEMENT LTD.

NAL Resources Management Limited, located in Calgary, manages oil and gas investments in Canada for North American Life and other institutions.

Over the past three years, NAL Resources has achieved excellent results through the application of horizontal drilling technology in two major oil fields in Saskatchewan. The drilling program in the Nottingham oil field, located northeast of Estevan, began in 1990. At that time, oil production from the field averaged some 300 to 400 barrels per day.

With the completion of the 1993 horizontal drilling program, production increased to some 3,000 barrels per day. In addition to the more rapid recovery, it is estimated that horizontal drilling will double the total recoverable oil in the field.

While completing the ambitious 1993 drilling schedule, NAL Resources also placed increased emphasis on environmental management. We completed a simulated producing oil field emergency exercise during the year, to ensure that safety procedures and emergency responses continue to meet the highest possible standards.

NAL Resources will continue to seek opportunities where its expertise in production, marketing, cost management and such technologies as horizontal drilling can enhance the value of proven oil and gas properties.







## FINANCIAL HIGHLIGHTS

<i>(thousands of dollars)</i>	1993	1992	% Change
Life Insurance in Force .....	\$ 84,016,000	\$ 75,739,000	10.9
Sales of New Life Insurance .....	15,383,528	13,675,000	12.5
Annualized Premiums			
- New Insurance Sales .....	139,642	126,395	10.5
Total Premium Income .....	1,010,692	892,976	13.2
Investment and Other Income .....	687,033	566,343	21.3
Policyholder Benefits .....	956,170	993,779	-3.8
Interest on Deposits & Other Liabilities	203,018	120,301	68.8
Dividends and Experience Refunds .....	39,844	40,782	-2.3
<b>Net Income</b> .....	<b>25,447</b>	<b>7,393</b>	<b>244.2</b>
Surplus .....	556,108	527,888	5.3
Return on Surplus .....	4.7%	1.4%	3.3
<b>Total Assets Under Management</b> .....	<b>\$ 18,425,948</b>	<b>\$ 14,507,230</b>	<b>27.0</b>

## FIVE YEAR STATISTICAL REVIEW

<i>(thousands of dollars)</i>	1993	1992	1991	1990	1989
<b>For the year</b>					
New life insurance sales .....	\$15,383,528	\$13,675,000	\$12,090,000	\$11,533,000	\$ 8,987,000
Revenue - premiums .....	1,010,692	892,976	905,219	926,597	737,617
- investment income .....	576,473	533,442	462,063	448,883	425,296
- other income .....	110,560	32,901	28,990	32,622	16,199
<b>Total revenue</b> .....	<b>1,697,725</b>	<b>1,459,319</b>	<b>1,396,272</b>	<b>1,408,102</b>	<b>1,179,112</b>
Policyholder benefits .....	956,170	993,779	1,025,388	1,054,438	841,131
Interest on Deposits & Other Liabilities .....	203,018	120,301	14,647	12,307	16,170
Commissions, operating expenses and taxes .....	473,246	297,064	271,458	253,980	236,405
Dividends and experience refunds ..	39,844	40,782	47,057	39,138	34,982
Net income .....	25,447	7,393	37,722	48,239	50,424
Return on surplus .....	4.7%	1.4%	7.7%	11.1%	13.1%
<b>At year end</b>					
Life Insurance in Force .....	\$84,016,000	\$75,739,000	\$64,700,000	\$57,228,000	\$51,274,000
Total Assets .....	8,913,036	8,501,948	4,987,639	4,664,734	4,190,075
Surplus .....	556,108	527,888	524,098	457,978	409,739
<b>Total Assets Under Management</b> ....	<b>18,425,948</b>	<b>14,507,230</b>	<b>8,826,000</b>	<b>7,734,000</b>	<b>6,306,000</b>



### The Board

The 1993 financial statements have been approved by the Board of Directors.

The Board is assisted in discharging its responsibilities for these financial statements by the Audit Committee, whose membership is comprised of six outside directors. The function of this Committee is to:

- Review the audited consolidated financial statements and recommend them for approval to the Board of Directors;
- Review with the external and internal auditors the systems of internal control;
- Recommend the appointment of the external auditors and their fee arrangements to the Board of Directors;
- Review other accounting, financial and security matters as required.

In carrying out the above responsibilities, this Committee meets regularly with management and the Company's external and internal auditors to approve the scope and timing of their respective audits. The Committee reviews their findings and ensures that their responsibilities have been properly discharged.

### Management

The accompanying consolidated financial statements have been prepared by the management of the Company. Management is responsible for their integrity and objectivity. To fulfill this responsibility, the Company maintains appropriate systems of internal control, policies and procedures to ensure that its reporting practices and accounting and administrative procedures are of high quality, consistent with reasonable costs. The Company maintains an internal audit function, which performs an ongoing assessment of the systems of internal control.

### Actuary

The Actuary is appointed by the Board of Directors pursuant to Section 357 of the Insurance Companies Act. Responsibilities include undertaking an annual valuation of the Company's policy liabilities in accordance with accepted actuarial practice and any direction that may be made by the Superintendent of Financial Institutions for the purpose of issuing a report to the external auditors, directors, policyholders, and the Office of the Superintendent of Financial Institutions, Canada. This report reflects the Actuary's opinion, based on an informed judgement, that:

- A reasonable provision has been made for all the obligations guaranteed under the terms of the policies in force;
- The assumptions for interest, mortality, morbidity, corporate expenses, and contingencies recognize the degree of risk inherent in the obligations of the Company, and are applied on consistent bases.

The Actuary makes use of the work of the external auditors in verifying the data files used in valuation.

### External Auditors

Coopers & Lybrand have been appointed external auditors for the North American Life group of companies, pursuant to Section 337 of the Insurance Companies Act, to report to the policyholders, directors and the Superintendent of Financial Institutions, Canada regarding the fairness of presentation of the Company's financial position and results of operations as shown in the annual financial statements.

The opinion of the external auditors is based upon obtaining an understanding of the Company's accounting systems, procedures and internal controls. Based upon the evaluation of these systems, the external auditors conduct appropriate tests of the Company's accounting records and obtain sufficient audit evidence to provide reasonable assurance that the financial statements are presented fairly in all material respects in accordance with generally accepted accounting principles. As permitted by statute, they make use of the work of the Actuary for any policy liability included in the financial statements in respect of which the Actuary has given an opinion.



**William E. Bradford**  
*Deputy Chairman and  
Chief Executive Officer*



**Peter W. Currie**  
*Executive Vice President and  
Chief Financial Officer*

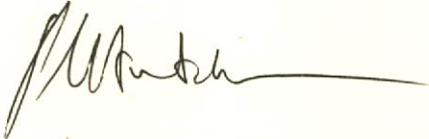
## ACTUARY'S REPORT

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### To the Directors and Policyholders:

I have valued the policy liabilities in the North American Life Assurance Company consolidated balance sheet at December 31, 1993 and their increase in its consolidated statement of income for the year then ended in accordance with accepted actuarial practice.

In my opinion, the valuation is appropriate and the financial statements fairly present its results.



**Peter S. Hutchison**

*Fellow, Canadian Institute of Actuaries  
Toronto, Canada, February 4, 1994*

## AUDITORS' REPORT

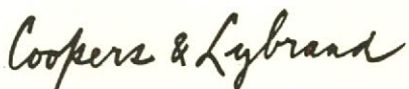
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### To the Directors and Policyholders:

We have audited the consolidated balance sheet of North American Life Assurance Company, and the segregated funds balance sheet, as at December 31, 1993, and the consolidated statement of income and retained earnings, changes in financial position, and statement of changes in segregated funds for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company and of the segregated funds as at December 31, 1993 and the results of its operations and the changes in its financial position, as well as the changes in the segregated funds, for the year then ended in accordance with generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions, Canada.



**Coopers & Lybrand,  
Chartered Accountants**

*Toronto, Canada, February 4, 1994*



## CONSOLIDATED BALANCE SHEET

<i>As at December 31 (thousands of dollars)</i>	1993	1992
<b>Assets</b>		
Investments		
Bonds .....	\$ 2,426,586	\$ 2,450,134
Mortgages .....	3,598,309	3,718,194
Stocks .....	151,528	175,028
Real estate .....	659,993	605,458
Oil and gas properties .....	84,881	84,605
	6,921,297	7,033,419
Cash and short-term investments .....	804,709	214,866
Investment income due and accrued .....	125,483	118,860
Outstanding premiums .....	24,371	21,969
Commercial, consumer, and other loans .....	490,577	367,838
Policyholder loans .....	177,652	179,451
Equipment leases .....	164,805	389,454
Deferred income taxes (Note 10) .....	43,561	56,845
Other assets .....	160,581	119,246
	\$ 8,913,036	\$ 8,501,948
<b>Liabilities</b>		
Provision for future policy benefits:		
Life insurance .....	\$ 1,154,339	\$ 1,119,364
Health insurance .....	316,503	263,690
Annuities .....	2,884,354	2,935,084
	4,355,196	4,318,138
Customer deposits .....	2,835,371	2,900,198
Dividends and experience refunds .....	40,998	41,732
Deposit liabilities and premiums paid in advance .....	188,228	140,845
Policy benefits in course of payment .....	42,253	36,221
Mortgages on real estate (Note 9) .....	57,322	78,836
Deferred realized gains on investments (Note 7) .....	203,069	140,288
Accounts payable and other liabilities .....	262,109	149,935
	7,984,546	7,806,193
<b>Subordinated debt (Note 4) .....</b>	<b>372,382</b>	<b>167,867</b>
<b>Surplus</b>		
Retained earnings (Note 3) .....	536,327	510,880
Currency Translation Adjustment (Note 2) .....	19,781	17,008
	556,108	527,888
<i>Approved on behalf of the Board</i>	\$ 8,913,036	\$ 8,501,948



**William E. Bradford**  
Deputy Chairman and Chief Executive Officer



**Gordon P. Osler**  
Chairman of the Board

## CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

<i>For the Year Ended December 31 (thousands of dollars)</i>	1993	1992
<b>Revenues</b>		
Premiums:		
Life insurance .....	\$ 358,689	\$ 334,896
Health insurance .....	267,682	228,285
Annuities .....	384,321	329,795
	<b>1,010,692</b>	<b>892,976</b>
Investment income (Note 8) .....	576,473	533,442
Fee and other income .....	110,560	32,901
	<b>1,697,725</b>	<b>1,459,319</b>
<b>Benefits and expenses</b>		
Death claims .....	154,063	142,287
Other life insurance benefits .....	66,894	70,921
Health insurance benefits .....	181,659	161,259
Annuity benefits .....	537,709	400,167
Interest on deposit and other liabilities .....	203,018	120,301
Increase in provision for future policy benefits .....	15,845	219,145
Commissions and general operating expenses .....	419,663	325,348
Premium and other taxes .....	24,623	18,510
	<b>1,603,474</b>	<b>1,457,938</b>
<b>Income before dividends and income taxes .....</b>	<b>94,251</b>	<b>1,381</b>
Dividends and experience refunds .....	(39,844)	(40,782)
Income taxes (Note 10) .....	(28,960)	46,794
	<b>(68,804)</b>	<b>6,012</b>
<b>Net income for the year .....</b>	<b>25,447</b>	<b>7,393</b>
<b>Retained earnings, beginning of year .....</b>	<b>510,880</b>	<b>503,487</b>
<b>Retained earnings, end of year .....</b>	<b>\$ 536,327</b>	<b>\$ 510,880</b>



## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

<i>For the Year Ended December 31 (thousands of dollars)</i>	1993	1992
<b>Operating activities</b>		
Net income .....	\$ 25,447	\$ 7,393
Increase (decrease) in items not affecting cash and short-term investments:		
Increase in provision for future policy benefits .....	15,845	330,654
Deferred income taxes .....	13,412	(54,079)
Investment income amortization net of depreciation and depletion .....	(19,244)	(11,442)
Amortization of discount on debt and excess of purchase price over net assets acquired .....	4,539	1,739
Changes in other assets and liabilities .....	91,289	132,258
	131,288	406,523
<b>Investing activities</b>		
Bonds .....	70,702	(561,912)
Mortgages .....	46,573	(33,182)
Stocks .....	59,629	17,272
Real estate .....	(53,612)	(52,111)
Policyholder loans .....	1,799	(5,115)
Equipment leases .....	224,649	136,267
Commercial, consumer and other loans .....	(149,456)	(16,862)
	200,284	(515,643)
<b>Financing activities</b>		
Short term financing .....	123,122	-
Investment in North American Trust .....	-	(51,000)
Offset by North American Trust investment in securities .....	-	51,000
Issue of Subordinated Debt .....	199,976	209,000
Discount on notes .....	-	(42,872)
Customer deposits .....	(64,827)	(50,424)
	258,271	115,704
Increase in cash and short-term investments .....	589,843	6,584
Cash and short-term investments, beginning of year .....	214,866	208,282
Cash and short-term investments, end of year .....	\$ 804,709	\$ 214,866

## SEGREGATED FUNDS BALANCE SHEET (NOTE 2)

<i>For the Year Ended December 31 (thousands of dollars)</i>	1993	1992
<b>Assets</b>		
Bonds .....	\$ 311,499	\$ 297,383
Mortgages .....	7,339	8,514
Stocks .....	4,387,367	2,415,644
Real estate .....	60,709	74,184
Cash and short-term securities .....	35,088	10,688
Investment income due and accrued .....	4,656	6,032
Other assets .....	592	445
	<b>4,807,250</b>	<b>2,812,890</b>
<b>Liabilities</b>		
Other liabilities .....	550	669
<b>Net assets</b> .....	<b>4,806,700</b>	<b>2,812,221</b>
Applicable to Segregated Funds policyholders .....	4,803,379	2,809,348
Applicable to the Company .....	3,321	2,873
	<b>\$ 4,806,700</b>	<b>\$ 2,812,221</b>

## STATEMENT OF CHANGES IN SEGREGATED FUNDS

<i>For the Year Ended December 31 (thousands of dollars)</i>	1993	1992
<b>Net Assets, Beginning of Year</b> .....	<b>\$ 2,812,221</b>	<b>\$ 1,907,266</b>
<b>Additions</b>		
Annuity deposits .....	1,725,289	794,249
Investment income .....	134,482	73,168
Net market value gain on investments .....	251,653	52,955
Transfers from General Funds .....	60,503	31,331
Currency adjustment due to changes in exchange rates ....	126,379	169,995
	<b>2,298,306</b>	<b>1,121,698</b>
<b>Deductions</b>		
Payments to policyholders and their beneficiaries:		
Death and disability benefits .....	18,722	12,823
Maturities and withdrawals .....	230,291	157,543
Annuity payments .....	7,952	8,866
Transfers to General Funds .....	-	7,991
Management fees .....	46,585	29,510
Taxes .....	277	10
	<b>303,827</b>	<b>216,743</b>
<b>Net assets, End of Year</b> .....	<b>\$ 4,806,700</b>	<b>\$ 2,812,221</b>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(the dollar amounts in these notes have 000's omitted, unless otherwise indicated)

### NOTE 1. The Company

North American Life Assurance Company and its subsidiaries (collectively, "the Company") operate in the financial services industry primarily in Canada and the United States. Operations include the development and marketing of life and

health insurance products; the sale of annuities, segregated and mutual funds; and the management of investments. Through North American Trust, the Company offers trust, deposit taking and lending services.

### NOTE 2. Significant Accounting Policies

The accompanying consolidated financial statements have been prepared by management, in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions, Canada.

Since these statements are prepared on the accrual basis of accounting, a precise determination of the values of many assets and liabilities is dependent on future events. This determination involves the use of estimates and approximations which have been made using careful judgement and within reasonable limits of materiality.

The more significant accounting policies are described below. Where there are differences in the policies followed by subsidiaries, these are identified.

#### (a) Basis of consolidation

The consolidated financial statements include the assets, liabilities, revenues and expenses of all wholly-owned or majority controlled subsidiary companies. Inter-company transactions have been eliminated on consolidation. The results of NAL Trustco Inc. are included from June 30, 1992, the effective date of the acquisition of North American Trust.

#### (b) Portfolio Investments

(i) *Bonds and Mortgages:* Bonds and mortgages are carried at amortized cost less specific provisions for any permanent impairment in value and general provisions. The unamortized balance of realized gains or losses on sales in the insurance operations is included in the balance sheet in deferred realized gains on investments, and is amortized to income over the remaining life of the investments sold, to a maximum of twenty years.

Gains and losses on disposal of bonds and mortgages in the non-life insurance operations are recognized as realized.

(ii) *Stocks:* In the Company's insurance operations, stocks are carried at book values which are adjusted towards market values at a rate of 15%

per year. Realized gains or losses on the sale of stocks are amortized to income at the rate of 15% per year on a declining balance basis, and the unamortized balance of realized gains or losses is included on the balance sheet in deferred realized gains on investments.

North American Trust carries stocks at cost less provision for any permanent impairment in value. Gains and losses on sales are recorded when realized.

(iii) *Loans and Equipment Leases:* Commercial, consumer and other loans, and equipment leases, are carried at their outstanding principal balances, less deferred fees and reserves for impairment.

(iv) *Real Estate:* In the Company's insurance operations real estate investments (land and buildings) are carried at book values which are adjusted towards appraised values at 10% per year. Consequently, no provision is made for depreciation. Realized gains and losses are deferred on the balance sheet and are included in deferred realized gains on investments. They are amortized to income at 10% per year on a declining balance basis.

North American Trust carries real estate at the lower of cost and estimated net realizable value.

In both the insurance and trust operations, foreclosed properties are carried at the lower of cost and net realizable value.

(v) *Oil and Gas Properties:* Oil and gas property investments are accounted for using the "successful efforts" method of accounting.

(vi) *Policyholder Loans:* Policyholder loans are carried at the face value of their unpaid balances and are collateralized by the cash surrender value of the respective policies.

#### (c) Other Assets

Other assets include: equipment and furniture carried at cost less accumulated depreciation determined on a straight line basis over varying periods

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**NOTE 2. Significant Accounting Policies (cont'd)**

from 5 to 10 years; leasehold improvements, amortized over the terms of the leases; capitalized software development costs; goodwill; and amounts receivable from agents and employees, reduced by an allowance for uncollectible accounts.

Goodwill is being amortized over twelve years, being the term of the debt which arose on the acquisition of North American Trust (see Note 4).

**(d) Segregated Funds**

Segregated fund investments are carried at market value. They are excluded from total assets and liabilities and are reported separately in these financial statements.

**(e) Provision for Future Policy Benefits**

The provision for future policy benefits is determined by the Actuary using the Policy Premium Method. Under this method, the provision represents the amount which, together with future premiums and investment income, will provide for future benefits and related expenses of insurance and annuity policies, and contains a reasonable provision for adverse deviations that recognizes the degree of risk inherent in the obligations assumed by the Company.

**(f) Foreign Currency Translation**

The operations in the United States are considered to be self-sustaining, and are translated using the current rate method. Unrealized translation gains and losses are accumulated as a separate component of surplus, described in the consolidated balance sheet as currency translation adjustment.

**(g) Income Taxes**

Income taxes are provided on the "tax allocation basis", using the "accrual" method. The provision is based on accounting income included in the financial statements, regardless of when such income is subject to tax in the various jurisdictions. Deferred income taxes result from timing differences which arise between income for accounting purposes, and income for tax purposes.

**(h) Discount on Senior and Junior Notes**

The discount on the NAL Trustco Inc. Senior and Junior Notes, which is attributable to the favourable financing rate of these notes, is being amortized over the term of the debt (see Note 4).

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**NOTE 3. Adjustment to Prior Period Opening Surplus**

The Company's 1992 opening surplus has been adjusted retroactively for an error in the conversion to the Policy Premium Method of determining actuarial reserves in a U.S. subsidiary of the Company

for periods prior to 1992. This adjustment has resulted in 1992 opening surplus being reduced by \$10.6 million, and an increase of \$6.0 million in 1992 opening deferred tax asset.

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**NOTE 4. Subordinated Debt**

Subordinated Debt consists of the following:

Issue	Redemption Value	Book Value (Millions)		Maturity Date
		1993	1992	
North American Capital Corp. ....	£ 100 million	\$ 200.0		Nov. 17, 2003
NAL Trustco Inc. Senior Notes .....	\$ 175 million	150.5	\$ 148.1	Jan. 01, 2004
NAL Trustco Inc. Junior Notes .....	\$ 34 million	21.9	19.8	Jan. 01, 2004
		\$ 372.4	\$ 167.9	

During the year, North American Capital Corporation (NACC), a wholly-owned subsidiary of the Company, issued notes which constitute unsecured, subordinated indebtedness of the issuer, and which are unconditionally and irrevocably

guaranteed by the Company, subject to subordination to policyholder funds. The notes bear interest at 8.25% per annum, and are redeemable by the Subordinated Debt issuer at the principal amount of £100,000,000 on November 17, 2003.



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**NOTE 4. Subordinated Debt (cont'd)**

The company has entered into various swap agreements with the result that the characteristics of the subordinated notes issued by NACC have been altered, as follows:

Maturity Date	Interest Rate	1993
		(Millions)
(a) November 17, 2003	Floating	\$ 50.1
(b) November 17, 2003	Floating	\$ 149.9
		<u>\$ 200.0</u>

- (a) These notes bear interest at a rate equal to the 90 day Canadian Bankers' Acceptance Rate plus 1.46%. The rate at December 31, 1993 was 5.71%.
- (b) These notes, which have a value of U.S. \$113,377,500, equate to a notional Canadian equivalent of \$149,900,000 and bear interest at a rate equal to the three month London Interbank Offer Rate plus 1.31%. The rate at December 31, 1993 was 4.81%.

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**NOTE 5. North American Trust Deficiency Coverage Agreement**

In connection with the acquisition and recapitalization of North American Trust, the Canada Deposit Insurance Corporation has agreed to provide deficiency payment support of up to \$300.0 million if losses occur in connection with specific acquired assets of that company and minimum income support for up to three years on each non-accrual "eligible asset." Eligible assets include certain securities, equipment leases, mortgages, loans and real

The NAL Trustco Inc. Senior and Junior Notes were issued in conjunction with the acquisition of North American Trust in 1992.

The NAL Trustco Inc. Senior Notes have a redemption value of \$175.0 million and were attributed a fair market value of \$146.9 million at the date of acquisition. The notes bear interest at rates established from time to time, are collateralized by the common and preference shares of North American Trust, and are payable in full, subject to reduction under the Deficiency Coverage Agreement (see Note 5) at maturity on January 1, 2004. The rate as at December 31, 1993 was 4.773%.

The NAL Trustco Inc. Junior Notes issued by NAL Trustco Inc., have a redemption value of \$34.0 million, and were attributed a fair market value of \$19.2 million at issue. The notes bear interest from July 10, 1995 at the lesser of the rate payable on the Senior Notes or 8% per annum, are unsecured and payable in full, subject to reduction under the Deficiency Agreement (see Note 5) at maturity on January 1, 2004.

estate owned at December 31, 1991. Losses on eligible assets in excess of \$300.0 million will be applied toward the reduction of the principal and accrued interest owing on the NAL Trustco Inc. Junior Notes and subsequently against the NAL Trustco Inc. Senior Notes.

As at December 31, 1993, North American Trust had utilized \$69.9 million of the deficiency payment support, and the carrying value of eligible assets was \$1,766.0 million.

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**NOTE 6. Goodwill**

During the first year subsequent to the acquisition of North American Trust, the Company made adjustments to the purchase equation which finalized the valuation estimates. These adjustments resulted in the establishment of an additional \$7.2 million of goodwill on acquisition which is being amortized over twelve years. Goodwill is included in Other Assets on the Balance Sheet.

	\$000's
Unamortized balance at beginning of year	2,757.4
Adjustments to purchase equation	7,211.9
Amortization for the year	(1,252.5)
Unamortized balance at end of year	<u>8,716.8</u>

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**NOTE 7. Portfolio Investments**

The market value of portfolio investments is as follows:

	1993	1992
Bonds .....	\$ 2,659,965	\$ 2,486,494
Mortgages .....	3,746,936	3,798,208
Stocks .....	162,872	173,958
Real Estate .....	647,835	707,522
Total .....	\$ 7,217,608	\$ 7,166,182

The balance of deferred realized gains arising in the insurance operations is comprised of the following gains and (losses):

Bonds .....	\$ 98,293	\$ 43,513
Mortgages .....	(974)	(1,600)
Stocks .....	50,970	36,880
Real Estate .....	54,780	61,495
Total .....	\$ 203,069	\$ 140,288

---

**NOTE 8. Investment Income**

Investment income, net of provision for losses, amortization of deferred realized gains and losses for all portfolio investments, and amortization of

unrealized gains and losses on stocks and real estate, was derived from the following sources:

	1993	1992
Bonds .....	\$ 229,211	\$ 189,891
Mortgages .....	280,633	262,446
Stocks .....	9,934	10,585
Real Estate .....	(5,482)	28,640
Oil and Gas .....	10,756	4,155
Policyholder loans .....	11,855	12,190
Short-term investments .....	19,496	22,096
Commercial loans .....	31,423	17,980
Other .....	(347)	(968)
Expenses .....	(11,006)	(13,573)
Total .....	\$ 576,473	\$ 533,442



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**NOTE 9. Mortgages on Real Estate**

Mortgages on real estate are at varying interest rates ranging from 8.625% to 11.850%, and the principal balance is repayable as follows:

1994 .....	\$ 6,103
1995 .....	517
1996 .....	6,069
1997 .....	43,993
1998 .....	640
	57,322
1999 and thereafter .....	-
Total .....	\$ 57,322

---

**NOTE 10. Income Taxes**

The provision for income taxes comprises:

	1993	1992
Current .....	\$ 15,548	\$ 7,285
Deferred .....	13,412	(54,079)
Total .....	\$ 28,960	\$ (46,794)

---

The current portion of the tax provision relates to the Company's liability under the Income Tax Act for the tax on the capital of financial institutions, the Large Corporations Tax, and the Investment

Income Tax. The deferred amount arises from timing differences relating to the accounting for reserves and investment income. At the present time, the Company does not have liability for Part 1 tax.

**NOTE 11. Employee Pension Plans**

The Company maintains non-contributory defined benefit pension plans, which cover substantially all employees, to provide pensions in retirement based on length of service and final average earnings.

The Company uses the accrued benefit method, and best estimate assumptions, in calculating the actuarial present value of future pension obliga-

tions. Actuarial valuations prepared as of December 31, 1992, were based on projections of employees' compensation levels to the time of retirement. The present value of the accrued pension benefits, and the net assets (at market value) available to provide for these benefits as at December 31, 1993 are projected as follows:

	December 31, 1993
Accrued pension benefits .....	\$ 127.8 million
Pension fund assets .....	\$ 183.5 million

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North American Trust has a defined contribution pension plan which is available to substantially all employees.

**NOTE 12. Lease Commitments**

The Company has annual contractual obligations for operating leases on premises and equipment as follows:

1994 .....	\$ 27,334
1995 .....	25,609
1996 .....	22,966
1997 .....	15,703
1998 .....	13,194
Remaining years .....	37,163
<b>Total .....</b>	<b>\$ 141,969</b>

**NOTE 13. Dividend Policy**

Each year, the Company determines and distributes divisible surplus to its participating policyholders in the form of annual dividends.

In general, dividends reflect current experience with respect to policy loans, investment earnings, mortality, morbidity, persistency, taxes and expenses. Broad equity is attained through varying dividends for major classes of policies based on contract provisions, underwriting practices

and government legislation.

The determination of divisible surplus, while incorporating all sources of earnings, recognizes that the continuing financial health of the Company is of primary importance. The Company follows a permanent surplus philosophy under which all participating policyholders are expected to make a permanent contribution to the surplus of the Company.

**NOTE 14. Segmented Information**

The insurance segment of the business operates in two significant geographic regions, Canada and the United States, while the trust operations are in Canada.

The following segmented information includes the results of North American Trust from the effective date of acquisition.

Geographic Segments	Canada		United States	
	Trust	Insurance	Insurance	Total
<b>1993</b>				
Total revenue .....	\$ 234,122	\$ 1,036,364	\$ 427,239	\$ 1,697,725
Operating income .....	(18,434)	53,343	59,342	94,251
Identifiable assets .....	3,084,594	4,399,653	1,428,789	8,913,036
Capital expenditures .....	9,093	9,477	2,345	20,915
Depreciation, depletion and amortization	8,853	6,172	766	15,791
<b>1992</b>				
Total revenue .....	\$ 143,190	\$ 1,007,597	\$ 308,532	\$ 1,459,319
Operating income .....	5,027	(10,872)	7,226	1,381
Identifiable assets .....	3,191,957	4,258,596	1,051,395	8,501,948
Capital expenditures .....	2,876	7,396	1,424	11,696
Depreciation, depletion and amortization	3,166	(15,668)	2,799	(9,703)



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**NOTE 15. Comparative Figures**

Certain prior years' figures have been reclassified to conform to the presentation adopted in 1993.

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Pursuant to Section 331 (3) (B) of the Insurance Companies Act, certain details of the principal subsidiaries of North American Life are provided:

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Name of Subsidiary	Head Office Location	Book Value of Shares Owned (000's)	% of Beneficial Ownership
North American Trust Company .....	Toronto	\$ 51,000	100
North American Security Life Insurance Company .....	Boston, Mass.	2,571	100
Elliott & Page Limited .....	Toronto	891	100
Seamark Asset Management Ltd. ....	Halifax	99	69
Edgecombe Group Inc. ....	Toronto	2,660	100
NAL Resources Limited .....	North York	40,206	100
NAL Resources Management Limited .....	Calgary	1	100
First North American Insurance Company .....	North York	9,472	100
First North American Life Assurance Company .....	Rye, New York	2,542	100
FNA Financial Inc. ....	Richmond Hill	1	100
Capitol Bankers Life Insurance Company .....	North York	2,393	100
Nalafund Investors Limited .....	North York	200	100
NASL Financial Services, Inc. ....	Boston, Mass.	-	100
NAL Mortgage Company .....	Toronto	-	100
North American Personal Financial Advisors Corp. ....	Toronto	-	100
North American Capital Corporation .....	North York	1	100

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This entire report was printed using non-petroleum distillate inks on an Environmental Choice acid-free, 100% recycled paper including 15% postconsumer fibre.

Design/Photo Illustration: Rushton, Green and Grossutti Inc.  
Photography: Joël Bénard  
Printing: Arthurs-Jones Lithographing Ltd.





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