The North American Group
Annual Report 1994

NORTH AMERICAN LIFE ASSURANCE COMPANY

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The North American Group

Our Cover

In today's financial services environment, companies like North American Life face more intense scrutiny and higher expectations than ever before – by customers, regulators, rating agencies, the media, potential partners and associates. North American Life's emphasis on being a customer focused, market driven and financially strong organization provides the foundations for us to sustain that scrutiny and meet those expectations.

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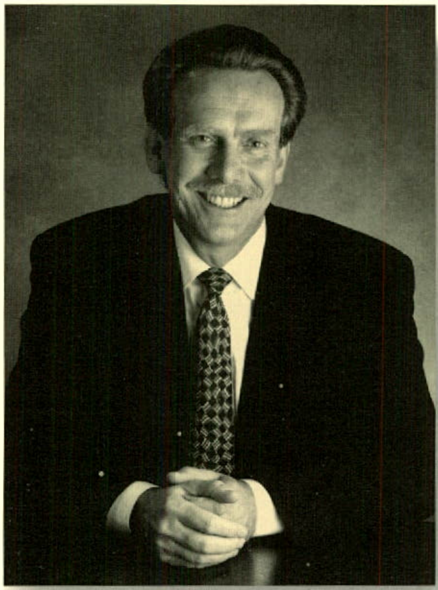
Message from the Chief Executive Officer



Brian L. Moore
President and Chief Executive Officer, The North American Group Inc.; Chief Executive Officer, North American Life

In this interview, North American Life's new CEO, Brian L. Moore, was asked for his views on the key events of 1994, and how the Company's strategies will meet the challenges of the future.

"If you were asked to sum up 1994 from North American Life's perspective, what would you say were the most important things that happened during the year?"

I would say there were four key events. First, we achieved strong growth in our core insurance and asset management businesses. We had record premium income and revenue, and our earnings from continuing operations were $31.9 million. Those are the businesses we're committed to, so that's important.

Second, we made the decision to sell North American Trust, and can now concentrate on growing the businesses that we feel offer us more potential.

Third, we ended the year as a strong and well-financed organization, we improved the quality of our assets, and we strengthened our core business with the acquisition of Sun Alliance's Canadian life operation.

The fourth event was the fall of Confederation Life. That has had a major impact on the environment and on confidence in our industry generally, and we will have to deal with that reality as we go forward.

"Will the sale of the trust business affect North American Life's long-term earnings or financial strength?"

Not in any significant way. We took a one-time $49.3 million charge against earnings in respect to the trust company and our Edgecombe real estate operation. That's a lot of money and we'd certainly have preferred not to take that charge. At the same time, we took a very conservative accounting position to ensure there would be no further negative impacts, and our overall financial strength is not compromised.

In fact, our ratio of total capital to total assets – the acid test of health for a financial institution – increased from 10.4% as reported for 1993 to 12.2% at year-end 1994 for continuing operations. The ratio of mortgages and real estate to total invested assets declined from 44.7% in 1993 to 38.4% at the end of 1994 for continuing operations.

Also, our surplus increased: from $556.1 million at the end of 1993 to $561.6 million in 1994. So, while the trust company cost us money, we're financially stronger today than we were a year ago.

"What went wrong at the trust company?"

Obviously, when we bought the trust company, we believed it represented an opportunity – and it did. What went wrong? Commercial real estate. Few people anticipated that commercial real estate values would continue to plummet as they have.

North American Life's exposure was always limited to the amount we invested in the trust company, and the agreement we negotiated with the Canada Deposit Insurance Corporation included financial support up to $475 million.

We fully expected to be able to resolve the trust company's problem portfolio within the scope of the support agreements, and we made a great deal of headway, working out more than half of it. The new business we developed was profitable. But it became clear that the trust business was going to need additional capital, so we made the decision to divest the operation and focus our capital on growing the businesses that offer greater returns.

"What would you say are the keys to future success for North American Life?"

I'd say there are three keys to success. The first is to focus on very clearly identified markets where we have or can build competitive advantage, either working alone or with partners. It may mean that we will make acquisitions to help us build strength in particular markets or exit markets we're in that lack sufficient growth potential.

The second key is financial health and the efficient use of our capital. We're going to seek out opportunities to cooperate with other institutions to leverage both our capital and our know-how. We'll keep a very close eye on our balance sheet to ensure that all our financial ratios stay strong and that the quality of our assets remains among the highest in the industry.

The third key is people. We have a lot of talent in our companies, and it's important that we create the right environment and conditions – and provide the clear direction – to make it possible for our people to build good careers for themselves and competitive success for our enterprises.

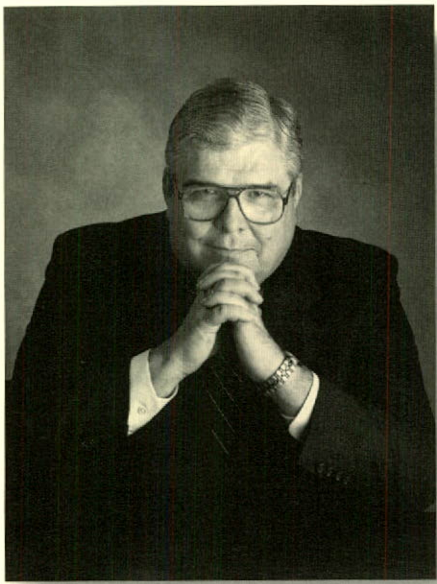
Those are the three keys to business strategy that we'll be applying as we focus on growing the businesses we're best at.

"What message do you hope people have after reading this report?"

The message I hope people have is that, first, we recognize the environment today is much different than it was in the past, that many people – customers, associates, rating agencies, regulators – expect us to meet higher standards, and we are committed to meeting those standards. Second, that we've had to make some difficult decisions but that doing so has resulted in North American Life being a stronger, more focused organization. The one thing that hasn't changed is that companies like North American Life have an inescapable obligation to earn the trust and confidence of people who rely on their promises. At North American Life we have always recognized that obligation, and are confident that we will continue to fulfil it.

Brian L. Moore
Chief Executive Officer

Directors' Report to Policyholders



During 1994, North American Life responded to dramatic environmental changes with a series of fundamental transitions – renewing our management, and much more finely focusing our business strategies in a way that we believe is well-suited to the current competitive climate for financial services companies.

John G. Lynch
President and Chief Operating Officer, North American Life; Executive Vice President, The North American Group Inc.

The competitive environment was marked by accelerating consolidation within the life insurance industry in Canada as many larger insurers purchased other companies or blocks of business, and with chartered bank movements into general insurance markets. For the Canadian life insurance industry, the failure of Confederation Life led to reduced levels of consumer confidence and increased vigilance by regulators and rating agencies.

In that environment, North American Life has moved to return to a clear focus on our core insurance and asset management businesses.

We have strengthened our efforts to improve the quality of our assets and, in particular, to further reduce our exposure to mortgage and real estate investments. We have also chosen to withdraw from two businesses – Edgecombe Group Inc., our real estate management operation, and North American Trust.

These actions will further our key goal, which is to increase North American Life's overall financial strength through prudent and efficient use of our increased capital, and effective management of our assets and our businesses.

Earnings

Consolidated earnings from continuing operations in 1994 were $31.9 million. That represents a decline of 28% from 1993, but it was close to our planned earnings target of $34 million. These earnings from continuing operations were more than offset by our decision to account for the divestiture of North American Trust conservatively, writing it down and treating it as a discontinued business on our 1994 financial statements, pending its sale. We took a one-time charge against earnings of $49.3 million at year end, so that our net results after this write-off show a loss of $17.4 million.

We achieved a 35% increase in total revenue in our insurance and asset management businesses, to a record $1.9 billion. Premium income was $1.4 billion – a 37% increase over 1993's record $1 billion level. Most of this growth was the result of strong sales in our Corporations and Sponsored Markets in both Canada and the United States.

Our Boston-based North American Security Life operation had record (U.S.) $1.4 billion in annuity sales, and was largely responsible for fee and other income growing to $116.9 million, up 56% over 1993. Investment income for the year was $454.8 million – up 24% over 1993.

Benefits Paid

During 1994, North American Life paid $963 million in benefits to customers and beneficiaries – an increase of some $22 million over 1993 levels.

Assets

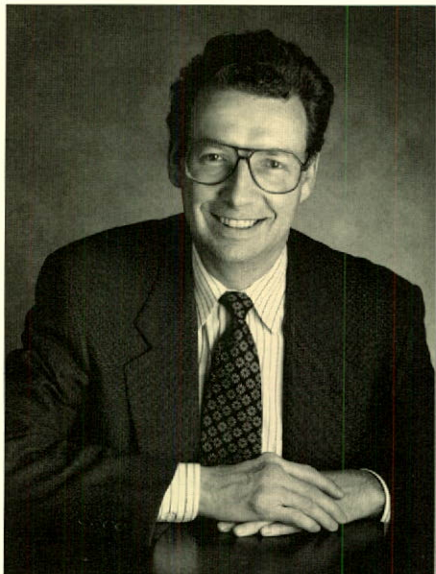
Assets relating to continuing operations – that is, excluding the $2.9 billion of North American Trust assets – increased by 8% to $6.3 billion at year-end 1994. Total segregated funds increased during the year by more than $1.4 billion to $6.2 billion. Total assets under management in our continuing operations were $15.5 billion at year end – an increase of $1.9 billion over the comparable figure for 1993.

We reduced our exposure to real estate and mortgage investments during 1994. At year end, mortgage and real estate investments represented 38.4% of the total invested assets of our Canadian and U.S. insurance operations, compared to 44.7% a year earlier. The proportion of total assets in bonds, Treasury bills and cash increased from 48% at year-end 1993 to 53.4% at year-end 1994. Our bond portfolio consists primarily of government and high quality corporate bonds, with over 97% investment grade, and more than 91% rated 'A' or higher. Acquisitions of producing oil and gas properties during the year increased these assets to $99.1 million from $84.9 million at year-end 1993.

One of the results of this conservative asset management strategy is that North American Life's liquidity is very high relative to most other life insurance companies – something that we believe is prudent in light of today's volatile market conditions. At year end, the Company had $3.4 billion of liquid assets backing liabilities, compared to an already strong $2.8 billion at the end of 1993.

Capital and Surplus

As at year-end 1994, North American Life had total capital of $770.7 million. The Company's surplus increased to $561.6 million from $556.1 million in 1993, after making full provision for losses related to discontinued businesses. The ratio of surplus to total assets grew from 6.2% as reported for 1993 to 8.9% at the end of 1994 for continuing operations. North American Life's ratio of total capital (surplus plus subordinated debt) to total assets increased from 10.4% as reported for 1993 to 12.2% at the end of 1994 for continuing operations.



Peter S. Hutchison
Executive Vice President & Chief Financial Officer, The North American Group Inc.; Executive Vice President, Chief Financial Officer and Chief Actuary, North American Life

Strategic Developments

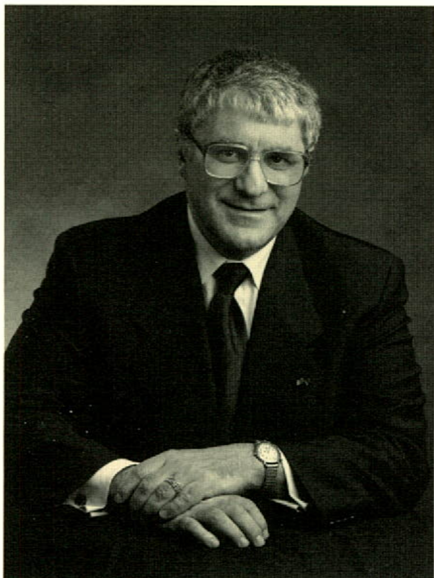
One major element contributing to the strengthening of North American Life's balance sheet during 1994 was the Company's decision – taken early in 1995 but accounted for conservatively as a charge against 1994 earnings – to divest our North American Trust Company subsidiary. This decision will eliminate the trust company's subordinated debt from North American Life's balance sheet and reduces our exposure to real estate. In addition, it makes it possible for us to focus our capital more effectively on the specific insurance and asset management markets where we have or can achieve sustainable competitive advantages.

North American Trust made solid progress under our ownership, reducing problem assets significantly, and building profitable new business, based primarily on residential mortgages and business and personal loans. The trust company, however, required more capital to continue to build its business than North American Life could prudently commit. The Company also concluded the sale of Edgecombe Group Inc., our real estate asset management operation, in late 1994 to Enterprise Property Group.

In 1994, North American Life completed a \$22 million acquisition of Sun Alliance and London Assurance Company (Canada) – the Canadian life insurance subsidiary of Sun Alliance Group P.L.C. of the United Kingdom. This acquisition enables us to lower unit costs and increase productivity by increasing the number of policies we are administering. The Sun Alliance purchase increased the number of individual life policies by approximately 9% and our life insurance in force by \$4.3 billion. We will continue to be alert to other opportunities for the acquisition of blocks of business that fit well and profitably with our key areas of competence.

In our 1993 annual report, we stated our intention of working to expand profitably in the United States. During 1994, we continued to pursue that strategy. North American Security Life further penetrated the small corporation pension market, strengthened the distribution capabilities for its annuities through banks and completed the first phase of a project to introduce a competitive variable life insurance product in 1995. Our Sponsored Markets team broadened its distribution through the bank channel, testing an innovative tele-underwriting program with 365,000 customers of one of America's largest banks, and expanding its business in the association markets.

Our focus in the U.S. market will continue to be on opportunities where we can leverage both our capital and our capabilities. We anticipate that an increasing proportion of our growth and profitability will be derived from this market.



Frederick W. Gorbet
Executive Vice President, The North American Group Inc. and North American Life

Corporate Governance

In 1994, the Nominating Committee of the Board of Directors assumed responsibility for corporate governance oversight at North American Life. "Corporate governance" refers to all the processes, structures and relationships through which the Board of Directors and senior management direct, guide and oversee the activities of the organization.

Under the guidance of the Nominating Committee, we conducted an evaluation of our organization's control systems during 1994 to ensure that our corporate environment supported the organization's objectives and complied with the network of economic, regulatory and social responsibilities within which we must operate. We are moving now to strengthen our corporate governance framework, providing a regulatory compliance system to help management address the issues of self-regulation, compliance and accountability.

North American Life's goal is to achieve an environment in which the organization's obligation to discharge all fiduciary and leadership responsibilities is integrated into all aspects of the business, and we will continue to work toward that goal through 1995.

Management and Board Changes

Brian L. Moore was appointed Chief Executive Officer, effective January 1, 1995, succeeding William E. Bradford. Mr. Bradford will continue as Deputy Chairman of the Board until October 31, 1995.

Mr. Bradford joined North American Life as President and Chief Executive Officer in 1987, after a distinguished career in banking. Previously, he had served as President of the Bank of Montreal. He has led North American Life with vision and determination, strengthening and positioning the Company to compete successfully in an increasingly challenging and demanding marketplace. We thank him for his contribution.

Mr. Moore has held a wide range of executive positions since joining North American Life in 1977, including President of Elliott & Page, and Executive Vice President and Chief Financial Officer of North American Life. He became President of The North American Group, Vice Chairman and a Director of the Board in 1993. He brings to his new responsibilities the experience, continuity and focus required for North American Life's continued development.

Peter S. Hutchison was appointed Executive Vice President and Chief Financial Officer in 1994. Mr. Hutchison has served in a number of executive positions since joining the Company in 1973, most recently as Senior Vice President and Chief Actuary.

Our Chairman, Gordon P. Osler, will be retiring at this year's annual meeting. Our longest-serving member of the Board, Mr. Osler has served as a Director of North American Life since 1953, and as our Chairman since his election at the annual meeting in April of 1986. His leadership has been invaluable.

Gordon P. Osler
Chairman of the Board

Management and Board Changes (Cont'd)

There have been a number of other changes to our Board of Directors. William A. Farlinger and Robert W. Korthals, both of Toronto, were appointed to the Board in 1994 and 1995 respectively. Each brings a wealth of experience to strengthen our Board. Mr. Farlinger is the former Chairman and CEO of Ernst & Young. He is a Director of Cara Operations Limited, Laidlaw Inc., and the Hongkong Bank of Canada Ltd. Mr. Korthals retired in January 1995 after 14 years as President of the Toronto-Dominion Bank. He is a Director of Co-Steel Inc., Hayes-Dana Inc., Jannock Limited, the Toronto-Dominion Bank, Rogers Communications Inc., Rogers Cablesystems Limited, and Harbour Petroleum Company Limited.

Kenneth V. Cox of Saint John, New Brunswick, and Charles Perrault of Montreal, Quebec – two of the Board's longest-serving members – reached the mandatory retirement age for Directors and will be retiring from the Board. We appreciate their wise counsel and many contributions over the years.

It is with sadness that the Directors note the passing in 1994 of Director James R. Brown of Toronto. His friendship, service and contribution, particularly as Chairman of the Audit Committee, was valued and he is missed.

Outlook

In today's financial services marketplace, companies like North American Life are subject to more intense scrutiny and higher expectations than ever before – from regulators, rating agencies, customers, potential partners and associates. The decisions we have made during 1994 – renewing our management, restoring our focus on our core insurance and asset management businesses, and strengthening our balance sheet and overall financial capacity – provide the foundations for us to withstand that scrutiny and meet those expectations. We are confident that, building on those foundations, North American Life will be an increasingly successful and profitable provider of high quality products and services to our select target markets.

Gordon P. Osler
Chairman of the Board

Brian L. Moore
Chief Executive Officer

Review of Operations

1994 was a year of solid progress and continued growth for The North American Group, with sales strong across most lines of business. During the year, we continued to pursue a three-part strategy in our life insurance operations: careful definition of markets where we have or can achieve competitive advantage; concentrated focus on the profitability of products and services we offer; and flexible, innovative linkages to other organizations to leverage both our capabilities and capital. Our financial services companies – North American Security Life, Elliott & Page, NAL Resources Management, and Seamark Asset Management – continued to generate strong, profitable growth in the markets in which they operate.

North American Life:

Corporations Market

Sales in our Corporations Market continued to demonstrate outstanding growth. In 1994, group money products sales increased by 94% over 1993 to a record $217 million. Group life and health insurance sales totalled $80.6 million, up 8% over 1993. Sales in the United States were particularly strong, posting an increase of 16%.

We conducted new research to identify service needs and satisfaction levels of market intermediaries (brokers) and plan sponsors (employers). The results show improved performance, with more respondents indicating they find North American Life easy to do business with, are satisfied with our overall service, and are willing to recommend us to others.

We introduced our Managed Drug Plan to the Canadian marketplace. The plan gives employees the convenience of processing their entire drug purchase transaction in the pharmacy, eliminating the need to submit claims and await refunds, while at the same time enabling employees, employers and providers to ensure the delivery of high quality care at affordable cost. The Managed Drug Plan has enjoyed good acceptance to date.

In the U.S. market, our research indicated the need for revised Long Term Disability products with additional features, and for a review of price positioning with respect to industry risk groups where claims experience deviated from previous patterns. The project's first phase was implemented during 1994; completion of the balance in 1995 will position us strongly to increase both market share and profitability.

In 1994, our Ontario money products sales team succeeded in underwriting our largest defined contribution program covering 4,800 members, with over $60 million in assets.

We added nine new pooled investment options – five for defined contribution plans and four for defined benefit plans. Customers can choose from 20 pooled and nine guaranteed options for their employer-sponsored retirement savings programs.

We created a special unit devoted exclusively to servicing our clients with defined benefit pension plans. This is a very promising market in which we intend to take a leadership position.

Personal Markets

Total insurance sales in Personal Markets – life, disability and health – were $28.2 million, up 2.4% over 1993. Growth was strongest in health products, while sales of life insurance products declined marginally, reflecting continued flat growth for this product line. Total money sales – annuities, segregated funds and mutual funds – increased 31.2% to $257.1 million, with segregated funds sales doubling.

Both market research and retention rates suggest that our emphasis on improved service is having a positive effect. In surveys of new customers who had purchased a personal insurance product from North American Life in 1994, 97% indicated they were either very satisfied or somewhat satisfied with the products they had bought and the service they received. Our 24-month persistency increased from 84.8% at year-end 1993 to 87.4% at year-end 1994.

We have continued to refine our focus on our specific target markets: "Nineties Families", "Primelifers" and the Chinese community. During 1993 we drew on our expertise in designing travel insurance plans for financial institutions and other organizations to develop a very successful individually underwritten out-of-Canada medical care program for Primelifer customers. We enhanced this program in 1994 and attracted thousands of new households to increase our penetration of this competitive market. Total 1994 sales of this product were $10.4 million.

We introduced a number of new programs for the Nineties Families, based on the results of customer research. Our new Genesis product responds to the needs of cost-conscious consumers for low cost, participating insurance that allows them to customize their coverage. Our new magazine, "Financial Strategies for Women", provides practical financial advice on issues of concern to women and their families, and has generated exceptional interest across Canada.

Recognizing the need in the Nineties Families and Chinese markets for disability income protection, we introduced key improvements to this product line, including higher financial underwriting limits.

Sponsored Markets

North American Life has been a leader in the direct response marketing of financial security products to members of associations and affinity organizations for nearly 50 years. Today, over 250 sponsors in Canada and the United States endorse North American Life products.

1994 was a year of outstanding growth for Sponsored Markets. Sales exceeded $81.1 million, for an increase of 62% over 1993. New sponsor acquisition, increased penetration of existing accounts, and greater efficiency through innovative marketing techniques all played a significant role in Sponsored Markets' success.

During the year, 30 new sponsors, including the Toronto-Dominion Bank, Canada Trust, National Auto League, Canadian Tire and the American Psychological Association, endorsed North American Life benefit programs for their members and customers.

Sponsored Markets (Cont'd)

Our Canadian association business, led by the Canadian Council of Professional Engineers (CCPE), and the Institute of Chartered Accountants of Ontario, showed impressive results. Our relationships with these groups go back to 1948 and 1972 respectively. Based on extensive market research, life insurance benefits were enhanced for the CCPE plan in 1994. Members' satisfaction with the new plan was shown by a 52% increase in sales.

We also strengthened our position in the Canadian alumni association market with the introduction of a profit-sharing program. We are the leading provider of financial security products to alumni associations, with a 70% market share. Twenty-seven universities and colleges across Canada offer North American Life products to their members.

We enjoyed continued success with U.S. associations. New U.S. sales totalled $12.5 million, up from $3.4 million in 1993.

Our creditor insurance business, providing life and disability protection for customers of automobile dealers in both Canada and the U.S., is growing rapidly. Creditor sales of $22.8 million in 1994 were up 71% over 1993.

We continue to be the leading Canadian travel health insurance provider to customers of banks and members of affinity groups. Revenue premium for this product line totalled $18 million in 1994. Higher sales, combined with more effective risk selection and claims management procedures, have led to improved profitability in this growing line of business.

As part of our ongoing expansion in direct marketing, we ran successful tests using tele-underwriting to facilitate the sales process. We are also enhancing our leadership in other forms of direct response marketing, such as telemarketing.

Reinsurance Markets

In May of 1994 we established our Reinsurance Division as a separate business unit. The division is targeting selected segments of the global personal accident and health markets, a segment of the U.S. life reinsurance market, and the U.S. medical expense market in which we have participated in risk sharing ventures led by reinsurers with proven track records.

The division's premium revenue of $40.4 million was up 48% over 1993.

We are now receiving life insurance business from many of the large U.S.-based life reinsurers, and are beginning to penetrate the London (UK) market to increase our accident business. The successful negotiation of several large treaties in late 1994 will help ensure strong future growth.

North American Security Life

North American Security Life ranks among the top ten providers of variable annuities to the United States marketplace, with a 3% share of the market. Four factors account for the company's continued success and profitable growth: quality products enhanced regularly to meet the changing needs of investors, responsive service, excellent distribution, and investment management provided by leading independent investment managers.

North American Security Life generated record annuity sales of (U.S.) $1.4 billion in 1994. Of this total, sales of qualified retirement plans to small corporations accounted for (U.S.) $126 million, up 30% over 1993. Mutual fund sales were (U.S.) $238.7 million, down 27% from 1993. These results were achieved despite a marketplace whose volatility and high interest rates led many investors to seek guaranteed interest products.

During the year, Wood Logan Associates, who wholesale North American Security Life products to broker/dealers, banks and other distribution channels, expanded its operations by establishing an office in Santa Barbara, California to manage distribution in the Pacific coast states. The new office accounted for 21% of Security Life's total sales in 1994.

Banks are becoming an increasingly important channel for Security Life products: their 1994 sales accounted for (U.S.) $90 million, compared to (U.S.) $60 million in 1993.

Security Life's New York subsidiary, First North American Life Assurance, produced over (U.S.) $100 million in its second year of operation, for 7.7% of total annuity sales.

Investors can choose among 14 variable investment funds, managed by seven major investment managers: Fidelity Management Trust Company, Goldman Sachs Asset Management, J.P. Morgan Investment Management Inc., Oechsle International Advisors, Roger Engemann Management Co., Inc., Salomon Brothers Asset Management Inc, and Wellington Management Company.

In 1994, Security Life took part in the Dalbar Financial Services surveys. Dalbar is an independent, national organization whose surveys benchmark customer service and administrative operations in mutual fund and variable annuity organizations. Participation in these research studies with peer group companies provides Security Life with benchmarks to further improve the quality of its service.

Elliott & Page Limited

During 1994, Elliott & Page, which manages investment portfolios for pension funds, institutions, mutual funds and for North American Life, increased its total assets under management to $7.8 billion from $7.7 billion the previous year.

Mutual fund assets showed particularly strong growth, increasing 17% over 1993 to $678.9 million. This continues a pattern of consistent growth: E & P's mutual fund assets have tripled over the last five years, while total pension assets under management have more than tripled – from $347 million in 1990 to $1.1 billion at year-end 1994. The company was awarded its largest single pension account, with aggregate asset value of over $140 million, in 1994.

Elliott & Page Limited *(Cont'd)*

During the year E & P reinforced its position in the Canadian mutual funds marketplace with the introduction of five global funds: Global Balanced, Global Bond, Global Equity, Asian Growth and Emerging Markets. The investment advisor for the Asian Growth Fund is Jardine Fleming in Hong Kong. Flemings in London is the advisor for the other four new funds. E & P now offers investors a full family of 11 domestic and global funds.

Seamark Asset Management Ltd.

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

In 1994, the company's assets under management increased nearly 18% to $470 million over 1993. Over the 10-year period ending December 31, 1994, Seamark's Balanced Funds pension composite returns ranked in the top 3% of Canadian pension managers.

Seamark is expanding the base of its marketing activities beyond the Atlantic region to other parts of Canada, targeting opportunities in offering money purchase pension fund products.

NAL Resources Management Limited

NAL Resources Management manages producing oil and gas investments for North American Life and other financial institutions from its headquarters in Calgary. The company's emphasis is on acquiring and managing proven producing properties that generate solid yields while at the same time offer low risk.

During the year, NAL Resources completed two major acquisitions for its clients: a significant interest in the gas reserves under Lake Erie, and reserves near Red Deer, Alberta. Total assets under management for North American Life and other clients increased 21.9% to $323 million.

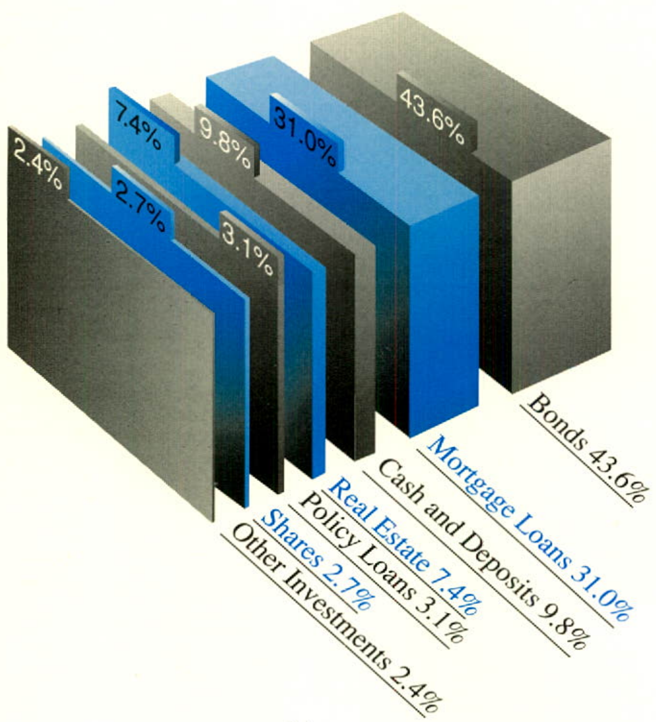
NAL Resources continued to achieve impressive results through its leadership in the management of horizontal drilling technology: in 1994, 12 additional horizontal wells drilled in southeast Saskatchewan yielded production of 1,787 barrels per day. Overall production from oil properties increased 14.3% to 6,385 barrels per day.

Financial Highlights

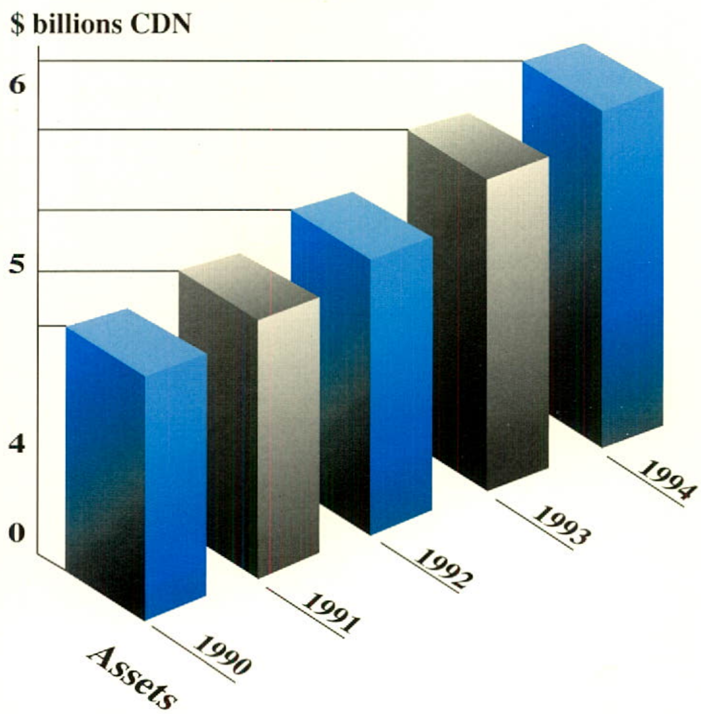
(Thousands of dollars)
Amounts relating to discontinued operations have been excluded from the financial highlights

Statistic	1994	1993	1992	1991	1990
Total assets	**6,307,506**	5,823,591	5,365,856	4,987,639	4,664,734
Total assets under management	**15,534,266**	13,837,934	9,982,408	8,826,000	7,734,000
Capital (surplus plus subordinated debt)	**770,729**	756,084	527,888	524,098	457,978
Total revenue	**1,952,956**	1,451,172	1,316,129	1,396,272	1,408,102
Life insurance in force	**99,522,000**	84,016,000	75,739,000	64,700,000	57,228,000
Surplus	**561,558**	556,108	527,888	524,098	457,978
Invested assets	**6,016,522**	5,576,716	5,057,062	4,822,954	4,483,232
New life insurance sales	**24,430,000**	15,383,000	13,675,000	12,090,000	11,533,000
Mortgages and real estate	**2,309,945**	2,490,268	2,601,982	2,601,818	2,522,959
% of invested assets	**38.39%**	44.65%	51.45%	53.95%	56.28%
Cash & short term, bonds & stocks	**3,377,975**	2,813,319	2,191,024	1,984,489	1,711,737
% of invested assets	**56.14%**	50.45%	43.33%	41.15%	38.18%
Life premiums	**395,767**	358,689	334,896	308,299	293,941
Health premiums	**302,970**	267,682	228,285	186,058	150,301
Annuity premiums	**682,548**	384,321	329,795	410,862	482,355
Fee and other income	**116,868**	74,840	24,736	28,990	32,622
% of total income	**5.98%**	5.16%	1.88%	2.08%	2.32%
Net income-continuing operations	**31,949**	44,320	2,528	37,722	48,239
Net income	**(17,364)**	25,447	7,393	37,722	48,239
Dividends and experience refunds	**49,809**	39,844	40,782	47,057	39,138
Return on surplus-continuing operations	**5.72%**	8.18%	0.48%	7.68%	11.12%

Our investment portfolio reflects a healthy, diversified mix.



Our solid growth in assets makes North American Life the tenth largest life insurance company among the 140+ insurance companies in Canada.



Management Report

Responsibilities for the consolidated financial statements

The Board

The 1994 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 fulfil 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

Management Report (cont'd)
Responsibilities for the consolidated financial statements

External Auditors (cont'd)

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.

Brian L. Moore
Chief Executive Officer

Peter S. Hutchison
Executive Vice President, Chief Financial Officer and Chief Actuary

Actuary's Report

To the Directors and Policyholders

I have valued the policy liabilities in the North American Life Assurance Company consolidated balance sheet at December 31, 1994 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 15, 1995

Auditors' Report

To the Directors and Policyholders

We have audited the consolidated balance sheet of North American Life Assurance Company, and the consolidated statement of net assets of its segregated funds, as at December 31, 1994, and the consolidated statements of income, surplus, changes in financial position, and changes in net assets of 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 its segregated funds as at December 31, 1994 and the results of its operations and the changes in its financial position, as well as the changes in the net assets of its 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

Coopers & Lybrand
Chartered Accountants

Toronto, Canada
February 15, 1995

Consolidated Balance Sheet

As at December 31 (Thousands of dollars)

		1994	1993
Assets	Invested assets (Note 4):		
	Cash and short-term investments	$ 592,372	$ 523,053
	Bonds	2,621,233	2,154,314
	Stocks	164,370	135,952
	Commercial loans	42,884	10,596
	Policyholder loans	186,585	177,652
	Mortgages	1,866,386	1,981,031
	Oil and gas properties	99,133	84,881
	Real estate	443,559	509,237
		6,016,522	5,576,716
	Other assets (Note 6)	290,984	246,875
		6,307,506	5,823,591
	Discontinued Operations (Note 2)	2,972,881	3,089,445
		$9,280,387	$8,913,036
Liabilities	Provision for future policy benefits:		
	Life insurance	$1,249,159	$1,154,339
	Health insurance	360,912	316,503
	Annuities	3,264,593	2,884,354
		4,874,664	4,355,196
	Other obligations to policyholders (Note 8)	306,564	271,479
	Borrowed funds (Note 9)	188,605	96,973
	Deferred realized gains on investments (Note 4)	90,508	203,069
	Other liabilities (Note 10)	76,436	187,951
		5,536,777	5,114,668
	Discontinued Operations (Note 2)	2,972,881	3,042,284
	Subordinated Debt (Note 11)	209,171	199,976
	Surplus	561,558	556,108
		$9,280,387	$8,913,036

Approved on behalf of the Board

Gordon P. Osler
Chairman of the Board

Brian L. Moore
Chief Executive Officer

Consolidated Statement of Income

For the year ended December 31 (Thousands of dollars)

		1994	1993
Revenues	Premiums:		
	Life insurance	$ 395,767	$ 358,689
	Health insurance	302,970	267,682
	Annuities	682,548	384,321
		1,381,285	1,010,692
	Net investment income (Note 5)	454,803	365,640
	Fee and other income	116,868	74,840
		1,952,956	1,451,172
Benefits and Expenses			
	Death claims	182,520	154,063
	Other life insurance benefits	67,634	66,894
	Health insurance benefits	210,652	181,659
	Annuity benefits	502,093	537,709
	Interest on deposit and other liabilities	31,205	14,396
	Increase in provision for future policy benefits	421,053	15,845
	Commissions and general operating expenses	413,726	347,755
	Premium and other taxes	21,431	20,158
	Dividends and experience refunds	49,809	39,844
		1,900,123	1,378,323
Income before Discontinued Operations and Income Taxes		52,833	72,849
	Income taxes (Note 7)	20,884	28,529
Income from Continuing Operations		31,949	44,320
Loss on Discontinued Operations (Note 2)		(49,313)	(18,873)
Net Income (Loss)		$ (17,364)	$ 25,447

Consolidated Statement of Surplus

For the year ended December 31 (Thousands of dollars)

		1994	1993
Balance at Beginning of Year	Retained earnings	$ 536,327	$ 510,880
	Currency translation account	19,781	17,008
		556,108	527,888
	Currency translation adjustment	8,293	2,773
	Surplus relating to Sun Alliance acquisition (Note 3)	14,521	–
	Net (loss) income	(17,364)	25,447
Balance at End of Year		$ 561,558	$ 556,108
Comprised of:			
	Retained earnings	$ 533,484	$ 536,327
	Currency translation account	28,074	19,781
		$ 561,558	$ 556,108

Consolidated Statement of Changes in Financial Position

For the year ended December 31 (Thousands of dollars)

		1994	1993
Operating Activities	Income from continuing operations	$ 31,949	$ 44,320
	Increase (decrease) in items not affecting cash and short-term investments:		
	Increase in provision for future policy benefits	475,691	15,845
	Deferred income taxes	(2,529)	13,376
	Amortization included in investment income	(4,343)	(20,481)
	Depreciation and other non-cash charges	10,811	6,656
	Changes in other assets and liabilities	(216,801)	120,636
	Net change relating to discontinued operations	55,344	17,725
		350,122	198,077
Investing Activities			
	Bonds	(456,256)	(106,618)
	Stocks	(4,232)	59,629
	Commercial loans	(32,288)	(10,596)
	Policyholder loans	(5,730)	1,799
	Mortgages	129,301	50,374
	Oil and gas properties	(25,627)	(9,182)
	Real estate	67,734	24,210
	Acquisition of subsidiary (net of cash of $6,724)	15,276	–
	Net change related to discontinued operations	(22,076)	90,955
		(333,898)	100,571
Financing Activities			
	Borrowed funds	91,632	18,137
	Issue of subordinated debt	–	199,976
	Net change related to discontinued operations	(38,537)	(16,919)
		53,095	201,194
Increase in Cash and Short-Term Investments		69,319	499,842
Cash and Short-Term Investments, Beginning of Year		523,053	23,211
Cash and Short-Term Investments, End of Year		$ 592,372	$ 523,053

Consolidated Statement of Net Assets of its Segregated Funds

For the year ended December 31 (Thousands of dollars)

		1994	1993
Assets	Bonds	$ 313,979	$ 311,499
	Mortgages	9,337	7,339
	Stocks	5,796,574	4,387,367
	Real estate	49,713	60,709
	Cash and short-term investments	33,123	35,088
	Investment income due and accrued	6,252	4,656
	Other assets	1,084	592
		6,210,062	4,807,250
Liabilities			
	Other liabilities	1,098	550
Net Assets		$6,208,964	$4,806,700
	Applicable to Segregated Funds policyholders	$6,205,619	$4,803,379
	Applicable to the Company	3,345	3,321
		$6,208,964	$4,806,700

Consolidated Statement of Changes in Net Assets of its Segregated Funds

For the year ended December 31 (Thousands of dollars)

		1994	1993
Net Assets, Beginning of Year		$4,806,700	$2,812,221
Additions			
	Annuity deposits	1,803,846	1,725,289
	Investment income	241,187	134,482
	Net market value gain on investments	–	251,653
	Transfers from General Funds	5,493	60,503
	Assets related to Sun Alliance and London Assurance Company (Canada) (Note 3)	4,974	–
	Currency adjustment due to changes in exchange rates	273,936	126,379
		2,329,436	2,298,306
Deductions			
	Payments to policyholders and their beneficiaries:		
	Death and disability benefits	31,330	18,722
	Maturities and withdrawals	413,866	230,291
	Annuity payments	11,230	7,952
	Transfers to General Funds	15,354	–
	Net market value loss on investments	377,697	–
	Management fees	77,261	46,585
	Taxes	434	277
		927,172	303,827
Net Assets, End of Year		$6,208,964	$4,806,700

Notes to Consolidated Financial Statements

For the year ended December 31, 1994 (The dollar amounts in these notes have thousands omitted, unless otherwise indicated)

The accompanying consolidated financial statements include the accounts of North American Life Assurance Company, a mutual life insurance company, and its subsidiaries (collectively, the Company). The activities of the Company are based primarily in Canada and the United States and cover a broad range of financial services such as life and health insurance, reinsurance, annuities, asset management and investment advisory services.

1. Significant Accounting Policies

(a) Basis of presentation

The consolidated financial statements are prepared in conformity with generally accepted accounting principles ("GAAP") in Canada, including the accounting requirements of the Superintendent of Financial Institutions, Canada.

Certain reclassifications have been made to comparative amounts to conform with the current year's presentation.

(b) Portfolio investments

(i) Bonds and mortgages

Bonds and mortgages are carried at amortized cost less provisions for impairments. The unamortized balance of realized gains or losses on sales 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.

(ii) Stocks

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.

(iii) Loans

Commercial loans are carried at their outstanding principal balances, less deferred fees and provisions for impairment.

(iv) Real estate

Portfolio real estate investments are carried at book values which are adjusted towards appraised values at 10% per year. Realized gains and losses are deferred on the balance sheet and are included in deferred realized gains on investments and are amortized to income at 10% per year on a declining balance basis.

(v) Oil and gas properties

Oil and gas property investments are accounted for using the successful efforts method of accounting, whereby costs of development of reserves are capitalized only when reserves are proven.

(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.

(vii) Impaired investments and provisions for losses

Provisions for losses against the carrying value of loans, bonds and mortgages are made to the extent impairment in value exists. A specific provision is established where there is a decline in value which is considered to be other than temporary or when the recovery of principal and interest is in doubt and the value of the underlying security is also impaired. Once established, a provision is reversed only if the conditions which gave rise to the impairment no longer exist. Accrual of interest ceases when the asset becomes non-performing upon payments becoming over ninety days in arrears or prior to ninety days in arrears if circumstances warrant. Interest income previously recorded as revenue and receivable is reversed when the underlying asset becomes non-performing.

Real estate assets acquired due to mortgage foreclosure and held for sale are valued at the lower of the amortized cost of the mortgage at the time of foreclosure and net realizable value. Any loss on foreclosure and subsequent adjustments to net realizable value are recognized in income immediately.

The carrying value of stocks is written down to market value immediately if there is other than a temporary decline in value.

1. Significant Accounting Policies (cont'd)

(vii) Impaired investments and provisions for losses (cont'd)

In addition to specific provisions, the Company provides for potential future asset defaults by reducing investment yields assumed in the calculation of insurance and annuity reserves and by establishing a general allowance for losses.

Provisions for losses are netted against the investment income of the underlying asset.

(c) Other assets

Capital assets are carried at cost less accumulated depreciation computed on a straight-line basis over their estimated future lives which vary from three to ten years, or for the duration of the lease in the case of leasehold improvements.

(d) Segregated funds

The Company manages certain funds which are segregated from the assets of the Company as reported on the consolidated balance sheet. Segregated fund investments are carried at market value 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 foreign operations carried on through subsidiaries are considered to be self-sustaining, and as such, assets and liabilities are translated at rates prevailing at the end of the year and revenue and expenses are translated at the weighted average exchange rates for the year. Unrealized translation gains and losses related to the investment in foreign operations are included in the Currency Translation Account in surplus.

Transactions denominated in foreign currencies are recorded in Canadian dollars at exchange rates in effect at the related transaction dates. Monetary assets and liabilities denominated in foreign currencies are adjusted to reflect exchange rates at the balance sheet date. Exchange gains and losses arising from the translation of monetary assets and liabilities are included in the determination of income for the year.

(g) Income taxes

Income taxes are provided on the tax allocation basis whereby the provision is based on accounting income 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) Post employment benefits

The Company sponsors pension plans for eligible employees and agents that are primarily non-contributory. Pension benefits are based on length of service and final average earnings.

Pension costs that relate to current service are charged to earnings in the period incurred. Experience gains and losses on defined benefit plans are amortized to income over the estimated average remaining service lives of plan members. Assets supporting plan benefits are held in segregated funds.

The Company also provides post employment benefits for employees which include health care and life insurance benefits. The cost of these benefits is recorded as a component of current benefit costs, and the accrued liability for benefits is included in other liabilities.

(i) Off-balance sheet financial contracts

The Company utilizes off-balance sheet financial contracts for hedging purposes. Gains and losses arising on financial contracts are amortized to income on the same basis as the underlying position being hedged.

Notes to Consolidated Financial Statements

For the year ended December 31, 1994 (The dollar amounts in these notes have thousands omitted, unless otherwise indicated)

2. Discontinued Operations

Effective December 31, 1994 the Company sold its investment in Edgecombe Group Inc. for proceeds approximating its carrying value. In addition, on February 6, 1995 the Board of Directors approved a formal plan to dispose of the Company's investment in its trust operations represented by its holding in NAL Trustco Inc. Accordingly, the Company has accounted for its investment in NAL Trustco as a discontinued operation on a retroactive basis and has written off the book value of its investment. The loss from discontinued operations and the related write-down of the investment amounts to $49,313, the majority of which relates to the investment write-down. The loss from discontinued operations for 1993 amounted to $18,873.

The net assets of the discontinued operations are as follows:

	1994	1993
Invested assets	$2,777,777	$2,817,519
Other assets	195,104	271,926
Deposits and other liabilities	(2,852,175)	(2,869,878)
Subordinated debt	(120,706)	(172,406)
Net assets	$ –	$ 47,161

The estimated loss on disposal includes an estimate of related costs of disposition. The future benefit of any tax recovery on the loss has not been recognized.

3. Acquisition

Effective September 30, 1994 the Company acquired all of the outstanding shares of Sun Alliance and London Assurance Company (Canada), a stock life and health insurer licensed in all provinces and territories in Canada selling insurance products similar to those of the Company. The transaction has been accounted for using the purchase method, the details of which are as follows:

Fair market value of assets acquired	$84,090
Liabilities assumed	(47,569)
Policyholder surplus	(14,521)
Fair value of net assets acquired	22,000
Purchase price paid in cash	22,000
Goodwill acquired	$ –
Segregated fund assets assumed	$ 4,974

Subsequent to year-end all of the assets and liabilities of Sun Alliance and London Assurance Company (Canada) were assumed by North American Life Assurance Company, pursuant to the wind-up of this subsidiary.

4. Invested Assets

(a) Market values

The market value of certain invested assets is as follows:

	1994	1993
Bonds	$2,578,916	$2,380,860
Stocks	162,267	147,482
Mortgages	1,839,783	2,129,658
Real estate	404,218	497,079
Total	$4,985,184	$5,155,079

Publicly traded bonds and stocks are stated at quoted market values. Mortgages and privately placed securities are stated at the present value of future payments discounted at current rates. Real estate amounts are based upon independently appraised values. Real estate assets with a value greater than $10 million are appraised annually, others every three years.

For the year ended December 31, 1994 (The dollar amounts in these notes have thousands omitted, unless otherwise indicated)

4. Invested Assets (cont'd)

(b) Deferred realized gains

The balance of deferred realized gains is comprised of the following gains (losses):

	1994	1993
Bonds	$ (2,063)	$ 98,293
Mortgages	(835)	(974)
Stocks	49,417	50,970
Real estate	43,989	54,780
Total	$ 90,508	$203,069

(c) Provisions

The book value of invested assets has been reduced by provisions as follows:

	1994	1993
Provisions		
Balance, beginning of year	$115,300	$ 62,300
Write-offs, net of recoveries	(26,000)	(22,600)
Provision for losses	13,800	75,600
Balance, end of year	$103,100	$115,300

In addition to provisions on non-performing assets and general provisions on currently performing assets, the provision for future policy benefits includes approximately $35,800 (1993 – $30,000) for future losses of income and capital on currently performing interest-bearing assets. Non-performing mortgages and commercial loans, net of insured amounts, amount to $102,873 (1993 – $86,479).

Included in the real estate portfolio are properties acquired by foreclosure of $40,590 (1993 – $38,797). Bonds and debentures with a book value of $127,872 (1993 – $118,953) were pledged as collateral for letters of credit issued related to reinsurance operations.

5. Net Investment Income

Net investment income was derived from the following sources:

	1994	1993
Short-term investments	$ 30,015	$ 8,191
Bonds	212,017	205,053
Stocks	10,491	9,905
Commercial loans	2,626	–
Policyholder loans	11,743	11,855
Mortgages	183,259	136,368
Oil and gas	14,594	10,756
Real estate	6,961	(5,482)
Expenses	(16,903)	(11,006)
Total	$454,803	$365,640

6. Other Assets

The balance is comprised as follows:

	1994	1993
Investment income due and accrued	$104,642	$ 86,744
Outstanding premiums	33,510	24,371
Capital assets	39,271	34,483
Deferred income taxes	9,091	42,112
Pension surplus	16,037	8,869
Deferred charges	15,737	–
Other	72,696	50,296
	$290,984	$246,875

Deferred charges relate to certain oil and gas assets acquired during the year which are included within the investment portfolio. These charges are being amortized to income over the expected period of the related cash flows. During 1994, $1,628 was charged to income in respect thereof.

Notes to Consolidated Financial Statements

For the year ended December 31, 1994 (The dollar amounts in these notes have thousands omitted, unless otherwise indicated)

7. Income Taxes

The provision for income taxes consists of the following:

	1994	1993
Current:		
Income taxes	$ 11,249	$ 1,028
Capital based income taxes	7,530	9,513
Investment income taxes	4,634	4,612
	$ 23,413	$ 15,153
Deferred	$ (2,529)	$ 13,376
Total income taxes	$ 20,884	$ 28,529

The rate of income taxes on income from continuing operations varies from the statutory rate of 44% in Canada as a result of the following:

	1994	1993
Taxes at statutory rates	$ 23,247	$ 32,054
Increase (decrease) resulting from:		
Tax exempt investment income and capital gains	(3,601)	(3,721)
Investment income and capital taxes	12,229	14,329
Lower taxes in foreign jurisdictions	(6,354)	(11,519)
Other	(4,637)	(2,614)
	$ 20,884	$ 28,529

8. Other Obligations to Policyholders

The balance is comprised of the following:

	1994	1993
Dividends and experience refunds	$ 47,432	$ 40,998
Deposit liabilities and premiums paid in advance	201,321	188,228
Policy benefits in course of payment	57,811	42,253
	$306,564	$271,479

9. Borrowed Funds

The balance is comprised of the following:

	1994	1993
Bank debt	$140,280	$ 39,651
Mortgages on real estate	48,325	57,322
	$188,605	$ 96,973

Bank debt, which is collateralized by certain investment management fees and subordinate to policyholder obligations, matures on December 30, 1999. The weighted average cost of borrowed funds at year-end was 9.1% (1993 – 7.84%).

Mortgages on real estate are at varying interest rates ranging from 8.625% to 11.0%, and the principal balance is repayable as follows:

	1994	1993
1994	$ –	$ 6,103
1995	365	517
1996	3,327	6,069
1997	43,993	43,993
1998	640	640
	$ 48,325	$ 57,322

10. Other Liabilities

The balance is comprised of the following:

	1994	1993
Due to other insurers	$ 21,614	$ 25,017
Income and other taxes	13,489	6,779
Amounts payable relating to securities purchases	–	83,471
Accounts payable and accrued expenses	41,333	72,684
	$ 76,436	$ 187,951

For the year ended December 31, 1994 (The dollar amounts in these notes have thousands omitted, unless otherwise indicated)

11. Subordinated Debt

The unsecured indebtedness of the issuing subsidiary, North American Capital Corporation ("NACC"), is unconditionally and irrevocably guaranteed by the Company, subject to subordination to policyholder obligations. The notes bear interest at 8.25% per annum, and are redeemable by NACC at the principal amount of £100 million on November 17, 2003.

The company has entered into various agreements to swap interest and currency obligations relating to the subordinated NACC debt resulting in obligations as follows:

Maturity date	Interest rate	1994	1993
(a) Nov. 17, 2003	Floating	$ 50,125	$ 50,125
(b) Nov. 17, 2003	Floating	159,046	149,851
		$209,171	$199,976

(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, 1994 was 7.23% (1993 – 5.71%).

(b) These notes, which have a value of U.S. $113,377,500, bear interest at a rate equal to the three month London Interbank Offer Rate plus 1.31%. The rate at December 31, 1994 was 6.84% (1993 – 4.81%).

Subsequent to year-end all of the assets and liabilities of NACC were assumed by North American Life Assurance Company, pursuant to the wind-up of this subsidiary.

12. Employee Pension Plans

Actuarial valuations prepared as of December 31, 1993, indicate that the present value of the accrued pension obligation, and the net assets (at market value) available to provide for the obligation as at December 31, 1994 are projected as follows:

Pension fund assets	$195,569
Accrued pension obligation	115,072
Excess of assets over obligation	$ 80,497

13. Contingent Liabilities

There are actions and legal proceedings against the Company and its subsidiaries which arise from usual business transactions. Management believes that resolution of these actions and proceedings would not be material to the financial position of the Company.

The Company is a member of the industry sponsored organization CompCorp which provides financial protection to Canadian policyholders of insurance companies that cannot meet their obligations. Owing to the failure of a large life insurer in Canada during the year, CompCorp may incur a liability. The provision for future policy benefits provides for expected future obligations arising from financial protection provided by CompCorp.

14. Lease Commitments

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

1995	$16,926
1996	14,293
1997	8,997
1998	5,591
1999	5,257
2000 and thereafter	12,932
	$63,996

Notes to Consolidated Financial Statements

For the year ended December 31, 1994 (The dollar amounts in these notes have thousands omitted, unless otherwise indicated)

15. Segmented Information

The principal continuing business activity of the Company is life and health insurance operations in addition to related financial services in Canada and the United States.

	Canada	U.S.A.	Total
1994			
Total revenue	$1,303,271	$ 649,685	$1,952,956
Operating income	23,121	29,712	52,833
Identifiable assets	4,526,697	1,780,809	6,307,506
Capital expenditures	9,017	5,331	14,348
Depreciation, depletion and amortization of capital assets	7,792	1,353	9,145

	Canada	U.S.A.	Total
1993			
Total revenue	$1,016,003	$ 435,169	$1,451,172
Operating income	11,881	60,968	72,849
Identifiable assets	4,397,977	1,425,614	5,823,591
Capital expenditures	9,477	2,345	11,822
Depreciation, depletion and amortization of capital assets	6,172	766	6,938

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

		(000's)	
Name of Subsidiary	Head Office Location	Book Value of Shares Owned	% of Beneficial Ownership
North American Security Life Insurance Company	Boston, Massachusetts	3,647	100
Elliott & Page Limited	Toronto	891	100
Seamark Asset Management Ltd.	Halifax	99	69
NAL Resources Management Limited	Calgary	1	100
First North American Insurance Company	North York	26,325	100
First North American Life Assurance Company	Rye, New York	2,698	100
FNA Financial Inc.	Richmond Hill	40,743	100
Capitol Bankers Life Insurance Company	North York	2,641	100
Nalafund Investors Limited	North York	200	100
NASL Financial Services, Inc.	Boston, Massachusetts	–	100
North American Capital Corporation	North York	1	100
Sun Alliance and London Assurance Company (Canada)	Toronto	23,770	100
NALACO Mortgage Corporation	North York	138,811	100

Trust operations have been discontinued and are not included above (Note 2).

Recognition of Field Achievements

We are pleased to announce the 1994 winners of the awards in our Financial Centres, Independent Distribution Centres and Group Offices. Congratulations to all!

Group Pension Recognition Awards

Arlene Wilson
Central Pension Group Office
Manager's Award of Excellence

Ron Marenger
Ontario Pension Group Office
Award of Excellence for Sales Leadership

Eric Beddis
Pacific Pension Group Office
Award of Excellence for Sales Proficiency

Financial Centre / Independent Distribution Centre Awards

Pierre Agouri
Montreal Champlain Financial Centre
President of the President's Club

Montreal Champlain Financial Centre
Herb Braley, Executive Manager
President's Cup

Pro-Gestion Services Financiers
Gilles Côté Jr., General Manager
Vice-President's Cup

Jacques Lauzier
Pro-Gestion Services Financiers
Master of the Year
J. Arnold Burdon Masters' Club

David Villanueva
Windsor Financial Centre
National Pacesetter of the Year

Group Insurance Recognition Awards

Garry McKenna
Sunshine Regional Group Office
Centennial Award

Claude Hamel
St. Lawrence Regional Group Office
Stephen D. Telfer Award

Ed Olson, Regional Group Manager
Southeastern Regional Group Office
Alexander Mackenzie Award

Dave Hickey, Regional Group Manager
Edmonton Regional Group Office
Canadian Award of Distinction

North American Security Life – Wood Logan Associates, Inc.

Leading Variable Annuity Wholesalers:
John Egbert
Northeast Region

Bob Allphin
Southeast Region

Ron Schantz
Midwest Region

Leading Mutual Fund Wholesaler:
Don Olsen
Western Region

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This entire report was printed using non-petroleum distillant inks on an Environmental Choice acid-free, 50% recycled paper including 20% post consumer fibre.

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