London Insurance Group

the Power to get there

Annual Information Form

February 7, 1997

Sources of Additional Information

Additional information, including directors' and officers' remuneration and indebtedness, corporate governance, principal holders of the Company's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Management Information Circular of London Insurance Group Inc. dated February 28, 1997. Additional financial information is also provided in the audited consolidated financial statements of London Insurance Group Inc. for the year ended December 31, 1996 contained in the 1996 Annual Report of London Insurance Group Inc.

Upon request by any person when London Insurance Group Inc. is in the course of a distribution of its securities pursuant to a short form prospectus or when a preliminary short form prospectus has been filed, London Insurance Group Inc. will provide: one copy of this Annual Information Form with any documents incorporated by reference; comparative financial statements for the most recently completed financial year with the accompanying auditors' report and any interim financial statements; the information circular of London Insurance Group Inc. in connection with its most recent annual meeting of shareholders; and any other documents incorporated by reference into a preliminary short form prospectus or a short form prospectus. When London Insurance Group Inc. has not filed a preliminary short form prospectus or is not in the course of a distribution, it shall provide any of the foregoing documents subject to its right to require people who are not security holders of London Insurance Group Inc. to pay a reasonable charge. Requests for copies of such documents should be sent to the Corporate Secretary of London Insurance Group Inc., 255 Dufferin Ave., London, Ontario N6A 4K1. Telephone: (519) 432-5281; Fax: (519) 432-4822.

Contents:

Incorporation and Subsidiaries

The Company was incorporated as Lonvest Corporation under the Business Corporations Act, (Ontario) by Certificate and Articles of Incorporation dated May 20, 1977. It was continued under section 187 of the Canada Business Corporations Act and the name was changed to London Insurance Group Inc. (the Company or LON) by Certificate and Articles of Continuance dated May 30, 1990. London Insurance Group's registered office is at 255 Dufferin Avenue, London, Ontario, N6A 4K1.

Subsidiaries

The following are London Insurance Group's major subsidiaries as at December 31, 1996.

	Jurisdiction of Incorporation	Percentage of Securities Owned Voting	Non Voting[1]	Nature of Business
London Life Insurance Company	Canada	98%	100%	Life, accident and sickness insurance, retirement products, reinsurance, and related financial services
London Life Financial Corporation	Ontario, Canada	100%	100%	Holding company
London Reinsurance Group Inc.	Canada	100%	100%	Holding company for international reinsurance operations
London Life Insurance Company of Michigan	Michigan, U.S.A.	100%	n/a[2]	Life insurance company conducting international reinsurance operations
London Life International Reinsurance Corporation	Barbados	100%	n/a	General and long term insurance company conducting international reinsurance operations
London Life and General Reinsurance Company Limited	Ireland	100%	n/a	General and long term insurance company conducting international reinsurance operations
London Life and Casualty Reinsurance Corporation	Barbados	100%	n/a	General and long term insurance company conducting international reinsurance operations
Shippan Life Insurance Company Limited	Barbados	80.1%	n/a	Finite risk property and casualty reinsurance business
London Life Reinsurance Company	Philadelphia, U.S.A.	100%	n/a	Life, health and annuity company conducting international reinsurance operations
London Life International Corporation	Canada	100%	n/a	Investment holding company and regional centre for business development in Asia
Shin Fu Life Insurance Company	Taiwan	40%	n/a	Life, accident and sickness insurance and related financial services
The Trust Company of London Life	Canada	100%	n/a	Wealth management products and services
London Fund Management Limited	Canada	100%	n/a	Manages the MAXXUM group of mutual funds
Toronto College Park Limited	Ontario, Canada	60%[3]	n/a	Commercial and residential property development holding company

Subsidiaries *(continued)*

	Jurisdiction of Incorporation	Percentage of Securities Owned Voting	Non Voting[1]	Nature of Business
International Care Corporation	British Columbia, Canada	100%	n/a	Develops, owns and operates retirement care housing
Devan Properties Limited	Ontario, Canada	95%[4]	100%	Real estate development and holding company
Security First Group, Inc.[5]	Delaware, U.S.A.	100%	n/a	U.S. annuities marketing and administrative service operations
Security First Life Insurance Company	Delaware, U.S.A.	100%	n/a	U.S. annuities
Security First Life Insurance Company of Arizona	Arizona, U.S.A.	100%	n/a	U.S. annuities
London General Insurance Group Inc.	Canada	100%	n/a	Specialty general insurance holding company
London Guarantee Insurance Company[6]	Canada	78.5%	100%	Surety, fidelity, directors' and officers' and professional liability insurance operations
Meloche Monnex Inc.[7]	Canada	66.3%	100%	Insurance brokerage operations and home and automobile underwriting operations
Security National Insurance Company	Canada	100%	100%[8]	Property and casualty insurance operations
Primmum Insurance Company	Canada	100%[8]	n/a	Property and casualty insurance operations
London Life Bank and Trust Company	Barbados	100%	n/a	Provides investment management services to the offshore sector in Barbados

1 Represents direct or indirect ownership by London Insurance Group of non voting securities.
2 n/a indicates there are no outstanding non voting securities.
3 Percentage of securities owned includes 9% owned by London Life staff pension plan.
4 Percentage of securities owned includes 18% owned by London Life staff pension plan.
5 Formerly The Holden Group, Inc.
6 Formerly the Wellington Guarantee division of Wellington Insurance Company; Wellington Insurance Company was sold in 1995.
7 London Insurance Group entered into agreement on December 16, 1996 for the sale of Meloche Monnex Inc. The transaction is expected to close during the first quarter of 1997.
8 The common and preferred shares of Security National Insurance Company are 100% owned by Meloche Monnex Inc.; the common shares of Primmum Insurance Company are 100% owned by Security National Insurance Company.

General Development of London Insurance Group

London Insurance Group is a provider of insurance and insurance-related services in selected domestic and international markets. The life insurance services provided through London Life Insurance Company (London Life) remain the core business of London Insurance Group. In addition, London Insurance Group, through its subsidiaries, has expanded its insurance operations to include specialty general insurance, international reinsurance and life insurance operations outside of Canada. London Life, a federally incorporated life insurance company governed by the Insurance Companies Act (ICA), is licensed to do business in all provinces and territories of Canada, as well as Bermuda and in the states of Michigan and Minnesota. Through its reinsurance subsidiaries, it holds licenses or authorizations to conduct reinsurance business in 45 of the American States and operates in Bridgetown, Barbados, Dublin, Ireland, and Blue Bell, Pennsylvania, U.S.A. It also holds a license in Taiwan through its joint venture, Shin Fu Life Insurance Company (Shin Fu).

Life insurance operations in the U.S. are conducted through Security First Group, Inc. (Security First Group), which is headquartered in Los Angeles, California. Security First Group specializes in the design, marketing and administration of tax-advantaged insurance, investment and retirement savings products.

Specialty general insurance operations are conducted through London Guarantee Insurance Company (London Guarantee), a fidelity and surety business.

The following reflects the general development of London Insurance Group over the last five years.

The past five year period has been one of continued earnings and asset growth for London Insurance Group:

- net income increased from $126 million in 1992 to $150 million in 1996, representing a compounded growth rate of 4.5% with growth highest in 1995 (14.0%);
- net income per common share increased in the same period from $1.33 to $1.55, representing a compounded growth rate of 3.9% with growth highest in 1996 (11.5%);
- total consolidated assets grew from $15.6 billion as at December 31, 1992, to $24.8 billion as at December 31, 1996, representing a compounded growth rate of 12.3% with growth highest as at December 31, 1996 (31.0%). Increases in assets over the past five years were largely attributable to increases in business volumes, growth in the reinsurance business and acquisitions. In 1996, London Life acquired most of the Canadian operations of The Prudential Insurance Company of America (The Prudential), which increased total assets by $4.4 billion;
- asset administration for others is an important fee-for-service activity which has grown primarily out of the portfolio management expertise in London Insurance Group. Assets under administration increased 29.3% over last year to $32.9 billion.

In January 1992, London Insurance Group issued $100 million 9⅜% Senior Debentures due January 8, 2002. The net proceeds from the offering were used to refinance existing short term indebtedness of London Life and for other operating purposes of London Life.

In October 1992, London Insurance Group issued 5 million 7.25% Class I Preferred Shares Series D (Series D Shares) for cash of $125 million. Under the terms of the offering prospectus, London Insurance Group applied the net proceeds to acquire preferred shares of London Life having attributes similar to the Series D Shares. These shares were issued on March 15, 1993 when regulatory confirmation was provided that such shares qualified as Tier 1 capital of London Life.

In October 1992, London Life entered into a joint venture agreement with a Taiwanese diversified investment company, Central Investment Holding Company, to establish a new domestic life insurance enterprise in Taiwan. Regulatory approvals were obtained in Canada in 1992 and in Taiwan in 1993, and the new insurer, Shin Fu, commenced insurance sales in Taiwan in October 1993. This joint venture markets long term insurance contracts through a career agency distribution system adapted for the Taiwan market from London Life's Canadian operation. London Life's total investment was $44 million at December 31, 1996, which represented a 40% interest in Shin Fu.

During 1992, London Insurance Group concluded that Trivest Insurance Network Limited (Trivest), a small network of independent distributors of property and casualty insurance products acquired in 1988, had no long term strategic value for London Insurance Group. Trivest's equity positions in brokerage firms were wound down during 1993 and 1994 by reaching agreements to sell and/or restructure the various investments.

In January 1994, London Life issued $60 million non-cumulative preferred shares which were purchased by London Insurance Group. Proceeds were used by London Life to increase the capital base of its reinsurance operations.

In May 1994, London Insurance Group purchased the remaining 40% minority interest of The Holden Group for US$55 million. The company was renamed Security First Group, Inc. in 1995.

In mid-1994, London Life International Corporation (LLI) was incorporated to be the focus of London Insurance Group's ongoing international diversification in the Asia Pacific region. Based in Kuala Lumpur, Malaysia, LLI provides ongoing support to Shin Fu in Taiwan, directs the activity of London Life's representative office in Beijing, China, and is the business base from which to assess opportunities for expansion in other growing markets.

In late 1994, London Insurance Group determined that its operations in Wellington Insurance Company (Wellington) were not of sufficient economic scale for it to compete effectively in Canadian and foreign markets without significant further investment. In January 1995, Wellington's personal and commercial business lines, excluding the fidelity and surety business of Wellington Guarantee Division and certain largely inactive subsidiaries, were sold to Internationale Nederlanden Canada Corporation for proceeds of $205 million, which included the redemption of $75 million in preferred shares held by London Insurance Group. The transaction closed in September of 1995.

In June 1995, London Insurance Group issued $125 million 7.20% Class I Preferred Shares Series E. $100 million of the proceeds of this issue were used to redeem the Class I Preferred Shares Series C, fixing the dividend rate for a seven year term. The remaining proceeds were used for general corporate purposes.

In July 1995, London Reinsurance Group Inc. (LRG) purchased 100% interest in Providers Fidelity Life Insurance Company, Limited, Pennsylvania, U.S.A. and subsequently renamed it London Life Reinsurance Company. London Life Reinsurance Company offers life, accident and health and annuity reinsurance products in the U.S. market.

In September 1995, London Insurance Group issued US$150 million of 6 7⁄8% 10 year Senior Notes in the United States public market, and listed the issue on the New York Stock Exchange (LIGI.05). Some of the proceeds of this issue were used to refinance short term debt that funded the 1994 purchase of the minority interest in the U.S. subsidiary, Security First Group, with the remainder used for general corporate purposes.

In October 1995, London Life incorporated The Trust Company of London Life (Trust Co.). Trust Co. is a wholly owned subsidiary of London Life incorporated to prospectively offer a wide range of wealth management products including Guaranteed Investment Certificates (GICs), equity linked GICs, Registered Retirement Income Funds (RRIFs), mutual funds, self directed Registered Retirement Savings Plans (RRSPs), RRSP loans, wills and trust services.

In December 1995, London Insurance Group incorporated 3207951 Canada Limited, to be called London Asset Management Inc. In December 1996, London Insurance Group wound up the operations of London Asset Management Inc.

In December 1993, London Insurance Group announced that it had filed with The Toronto Stock Exchange and the Montreal Exchange (the Exchanges) a Notice of Intention to make a Normal Course Issuer Bid (NCIB) for its common shares. Under the NCIB, London Insurance Group could purchase up to 5% of its issued and outstanding common shares at open market prices. London Insurance Group believes that, from time to time, the market price of its common shares does not fully reflect the value of its business and its future prospects and that, accordingly, purchase of its own common shares is an attractive and appropriate investment of its available funds. Effective February 27, 1995, a similar NCIB was approved by the Exchanges for a further year, allowing London Insurance Group to purchase up to 5% of its outstanding common shares. The NCIB was renewed for a further year, effective February 27, 1996. Over the most recent period, which expired February 26, 1997, 1,401,200 common shares have been repurchased. The Company subsequently renewed the NCIB for a further year, effective February 27, 1997.

In July 1996, London Life Financial Corporation (LLFC) redeemed $100 million of preferred shares owned by London Insurance Group.

In July 1996, London Life purchased most of the Canadian operations of The Prudential Insurance Company of America and the Prudential Fund Management Corporation. The latter company was renamed London Fund Management Limited as a subsidiary of London Life. This acquisition significantly increased London Life's individual and group customer base, and expanded the company's sales force. In addition to business and distribution growth, London Life's product portfolio is enhanced with universal life products and mutual funds (formerly Prudential funds, renamed the MAXXUM group of funds). This transaction increased London Life's consolidated assets by $4.4 billion, increased the customer base by 1.3 million individuals and group plan members, and significantly increased market share. This purchase by London Life was financed with subordinated debt from London Insurance Group.

In July 1996, London Life issued $300 million of 15 year subordinated debt at 8.75% to London Insurance Group and proceeds were used to finance The Prudential acquisition.

In October 1996, London Reinsurance Group acquired 80.1% ownership of Shippan International Insurance Company Limited, a specialty reinsurer with assets of $600 million, providing finite risk reinsurance in U.S. property and casualty markets. The purchase price of $53 million approximates the fair value of net assets required.

In November 1996, London Insurance Group announced a stock dividend to common shareholders of record on December 16, 1996. Shareholders received one common share for each share held. This action had the effect of splitting the common shares on a two for one basis.

Also during 1996, Security First Group simplified its corporate structure with its major operating subsidiary Security First Life Insurance Company assuming the liabilities of its subsidiary, Fidelity Standard Life. The resulting corporate shell was sold for $7 million.

In December 1996, London Insurance Group signed an agreement to sell its interest in the operations of Meloche Monnex Inc., a property and casualty business, owned 66.3% by London Insurance Group and 33.7% by Meloche management. The deal is expected to close in early 1997. London Insurance Group's pre-tax gain approximates $60 million.

The following paragraphs summarize the changes expected in London Insurance Group's business. These changes are described in more detail in Management's Discussion and Analysis included in the 1996 Annual Report of London Insurance Group (page 15) and are incorporated by reference in this Annual Information Form.

London Insurance Group anticipates continuing expansion of its Canadian business base by focusing on broadening its portfolio of products and services to capitalize on emerging market opportunities, and expanding distribution to find new and better ways to reach customers. Key business processes will be reengineered to better access selected markets, improve customer services and retention, and reduce costs. Internationally, London Insurance Group plans to continue growth in reinsurance, and in international life business with partners in Shin Fu in Taiwan, and assess opportunities for expansion in other growing markets. Training and development of all employees, particularly in their use of technology will also be a priority to enhance effectiveness in meeting customers needs.

For London Life, this will mean maintaining and increasing its position as the largest provider of individual life insurance in Canada. It will also involve maintaining its position as a leading low net cost provider of participating individual life insurance. Emphasis will be placed on targeting niche markets such as ethnic communities in Canada's metropolitan areas. London Life also plans to increase the size and productivity of its highly trained sales force and to continue improving the quality of its customer service. The company believes that the ongoing consolidation and rationalization of the life insurance industry in Canada will present further attractive opportunities to acquire Canadian life insurance companies or blocks of business compatible with London Life's core operations.

London Life will continue to reengineer key business processes in order to deliver significant improvements in customer service as well as reductions in unit operating costs. While continuing to practice stringent cost controls, with the objective being to constrain the growth in operating expenses to less than 50% of growth in its premiums and related revenues, London Life will also continue to invest in workplace and distribution technology and training to improve the productivity of its employees and representatives.

Life insurance will remain the core product of London Life. However, London Life will continue to develop a broad range of other financial security products including retirement, pension and savings products and, in the area of employee benefits, health and life insurance products. London Life will place particular emphasis on developing opportunities to offer new products to existing insurance customers (1.7 million individuals and 1.6 million employee benefit plan members) as a further source of business growth.

Security First Group will continue to pursue its growth strategy and develop further operational efficiencies by investing in technology, increasing productivity, and developing more synergies with other London Insurance Group companies that reduce costs. Security First Group's growth strategy is supported by favourable demographics and a growing awareness by consumers of the need for supplemental retirement savings.

1997 will see further expansion of LRG, through increased diversification of its product portfolio and market development in Asia and South America. The newly acquired subsidiary, Shippan Life Insurance Company Limited (Shippan) provides specialty finite risk reinsurance to the U.S. property and casualty market. The Pennsylvania-based subsidiary, London Life Reinsurance Company, increases London Insurance Group's North American presence by granting the company improved access to the growing U.S. accident and health and annuity coinsurance markets. Management views reinsurance as an attractive opportunity to participate in selected profitable and growing insurance markets, without the expense or time commitment of building a retail distribution system. Similarly, London Insurance Group is confident that expanding the reinsurance operations carried on by London Life and General Reinsurance Company Limited in Dublin, Ireland, is the most appropriate way to participate successfully in the European insurance markets.

London Insurance Group carries out specialty general insurance business through London Guarantee. The specialty insurance markets targeted in Canada by London Guarantee are expected to grow at a rate of 2% to 3% per annum over the next several years. London Guarantee projects future growth at a rate of 12% to 15% annually, in each of its areas of expertise: surety, corporate risk, and special risk business. This target will be achieved through concerted marketing efforts and by cultivating strong relationships with top tier accounts and existing brokers, by identifying both new business and product opportunities while ensuring business diversification, and by building upon existing systems technology capabilities.

London Life will continue to expand its business activities into areas where it will grow by virtue of its strong capital base and expertise in insurance. Emphasis currently is being placed upon providing specialty reinsurance support to U.S., European and Asian life and property and casualty insurers, and on building the joint venture, Shin Fu, in Taiwan. Shin Fu is a first step in applying the knowledge and skills gained in Canada to provide high quality life insurance products to serve the needs of customers in the underinsured and increasingly prosperous markets of the Asia Pacific region. In 1994 London Life received permission to open representative offices in Beijing and Shanghai, through which it is establishing business contacts and relationships in order to continue the Company's policy of cautious expansion in emerging markets.

Business of London Insurance Group

London Insurance Group operates under four business segments: life insurance, reinsurance, specialty general insurance, and investment operations. In life and specialty general insurance, its companies operate as direct writers and as reinsurers. The life and specialty general insurance segments of the business are built on the principle of pooling of risk. The risks insured include death, disability, sickness, and third party liability. Although these risks are unpredictable and uncertain for an individual, they are statistically predictable for a large number of individuals. The Company also seeks to limit the volatility of its operating results through the purchase of catastrophic reinsurance protection. The business economics for insurance are that premiums from insured individuals combined with investment income on assets held for the payment of future claims are used to pay benefits to the claimants and provide a satisfactory return to the Company.

Reinsurance operations provide important diversification, both from a global perspective as well as by offering diversification across product lines. London Life Reinsurance Company, the Company's Pennsylvania-based subsidiary, increases the Company's North American presence by granting improved access to the growing accident and health and annuity coinsurance markets in the U.S., and the newly acquired subsidiary Shippan, provides access to property and casualty markets in the U.S.

Investment operations provide a source of income to supplement the contribution from insurance operations. These operations also provide additional security to ensure all lines of business are conservatively capitalized, prudently leveraged and operating efficiently in the marketplace. Going forward, investment operations will pursue yield enhancement programs, as well as the use of risk management techniques to reduce any interest rate exposure in the various portfolios. London Insurance Group's philosophy is to fund long term investments in operating units by a combination of preferred shares, senior notes and debentures and common share capital.

London Insurance Group competes with major life and general insurance companies and bank subsidiaries in Canada for sales of insurance products and with banks, loan and trust companies, mutual fund companies, and other financial institutions for savings, retirement, investment management and treasury investment business in Canada. In the United States, London Insurance Group competes with major life insurance companies for the sale of retirement income plans (annuities) and related products; and with major U.S. life insurers, reinsurers, and international reinsurers for reinsurance business. London Insurance Group competes outside North America with major international reinsurers and in Taiwan with major domestic and foreign life insurers.

Revenue and net income by business segment for the past five fiscal years were as follows:

Revenue

(millions of dollars)	**1996**	1995	1994	1993	1992
Life insurance	**$ 4,491**	$ 3,744	$ 3,396	$ 3,444	$ 3,294
Reinsurance	**1,120**	1,347	1,079	609	291
Specialty insurance	**37**	26	24	12	2
Investment operations	**26**	28	41	43	46
Total	**$ 5,674**	$ 5,145	$ 4,540	$ 4,108	$ 3,633

Net income

(millions of dollars)	1996	1995	1994	1993	1992
Life insurance[1]	**$ 45**	$ 79	$ 76	$ 75	$ 68
Reinsurance	**48**	41	39	28	26
Specialty insurance	**8**	4	3	2	–
Investment operations	**14**	17	12	18	26
Total	**115**	141	130	123	120
Net income (loss) from Meloche Monnex and Wellington	**49**	5	(4)	14	11
Interest on capital (after tax)	**(14)**	(8)	(5)	(5)	(5)
Net income	**$ 150**	$ 138	$ 121	$ 132	$ 126

[1] 1996 results are after integration costs of $155 million (shareholders' portion was $43 million after tax).

Geographic distribution

Revenue, income before tax and other items and assets by geographic distribution for the past five fiscal years were as follows:

Revenue

(millions of dollars)	1996	1995	1994	1993	1992
Canada	**$ 3,465**	$ 2,926	$ 2,714	$ 2,779	$ 2,746
United States	**1,256**	1,413	762	711	595
Barbados	**808**	736	1,009	561	292
Europe	**118**	70	55	57	–
Asia	**27**	–	–	–	–
Total	**$ 5,674**	$ 5,145	$ 4,540	$ 4,108	$ 3,633

Income before tax and other items[1]

(millions of dollars)	1996	1995	1994	1993	1992
Canada	**$ 480**	$ 197	$ 191	$ 220	$ 188
United States	**40**	28	27	10	13
Barbados	**53**	41	31	21	23
Europe	**12**	13	10	9	–
Asia	**(6)**	(1)	1	–	–
Total	**$ 579**	$ 278	$ 260	$ 260	$ 224

[1] Income before provision for integration costs, interest on senior notes and debentures, taxes, assessments and government levies and income from Meloche Monnex.

Assets

(millions of dollars)	1996	1995	1994	1993	1992
Canada	**$ 18,652**	$ 13,909	$ 13,456	$ 13,130	$ 13,177
United States	**3,344**	2,918	2,604	2,426	1,915
Barbados	**2,465**	1,798	1,380	705	504
Europe	**252**	216	214	173	–
Asia	**98**	96	33	32	–
Total	**$ 24,811**	$ 18,937	$ 17,687	$ 16,466	$ 15,596

The following discussion of London Insurance Group's business is organized by geographic market, Canadian and International operations, with comments on principal operating companies, products and marketing/distribution methods for each market.

Canadian Operations

Life insurance and savings/investment

London Insurance Group offers a wide range of insurance and savings products to individuals and businesses, including life insurance, health and disability insurance, savings and retirement products (annuities), pension plans and investment management services related to pension products in all provinces in Canada through London Life, headquartered in London, Ontario.

London Life key statistics

(millions of dollars)	**1996**	1995	1994	1993	1992
Corporate assets	**$ 20,738**	$ 15,021	$ 13,921	$ 12,857	$ 12,336
Segregated funds	**3,345**	2,317	2,073	1,741	704
Mutual funds	**654**	–	–	–	–
Capital					
Subordinated debt	**300**	–	–	–	–
Minority interest	**27**	112	109	177	162
Participating policyowners' interest	**751**	634	602	553	509
Preferred	**185**	185	185	125	–
Common and retained earnings	**606**	659	612	568	522
Total	**$ 1,869**	$ 1,590	$ 1,508	$ 1,423	$ 1,193
Dividends and net income to policyowners	**$ 512**	$ 340	$ 337	$ 327	$ 285
Net income to common shareholders					
Before integration costs	**96**	86	83	83	84
After integration costs	**53**	86	83	83	84
Total revenues	**4,560**	4,225	3,478	3,349	2,987
Life insurance in force	**$ 145,921**	$ 101,605	$ 98,777	$ 100,398	$ 98,783
Return on common equity					
Before integration costs	**15.4%**	13.6%	14.1%	15.1%	16.8%
After integration costs	**8.8%**	13.6%	14.1%	15.1%	16.8%

The following table sets forth London Life's market share of premium income earned by insurance companies in Canada broken down by major product line over the years indicated. London Life was the largest provider of individual life insurance coverage in Canada in 1995 with a market share of 14%, as measured by premium income. The next largest competitor in this market has a market share of approximately 10% of premium income. Measured by assets located in Canada at the end of 1995, London Life was the fourth largest life insurance company in Canada. Statistics for 1996 are not shown, as Canadian Life and Health Insurance Association Inc. published industry data is not yet available; however with the acquisition of The Prudential business, premium income market shares are estimated to be 18% for Individual Life Insurance, and 11% for Group Life and Health. (Measured on share of assets including segregated funds for Individual Savings and Retirement, London Life's market share including The Prudential is estimated to be 3%, and for Group Retirement Products, 6.4%.)

London Life market share

(% of total premium income)	**1995**	1994	1993	1992	1991
Individual life insurance	**14.1%**	14.0%	14.2%	14.1%	14.5%
Individual savings and retirement	**7.6**	8.7	7.8	6.2	5.3
Group health insurance	**5.2**	5.3	5.6	6.1	6.8
Group life insurance	**4.3**	4.6	4.2	4.6	4.8
Group retirement products	**4.0%**	4.8%	4.9%	4.3%	5.0%

Source: Total market data from Canadian Life and Health Insurance Facts and Annuity Business in Canada, published by the Canadian Life and Health Insurance Association Inc.

In Canada, London Life offers products which are either participating or non participating. The major portion of the profits from participating lines is distributed to the policyowners, usually annually, through policy dividends. The amount of dividends depends primarily on investment yields, mortality experience, expense levels and the policyowners' retained earnings balance. Policy dividends are declared by the Board of Directors on an annual basis and credited equitably to each contract. London Life follows the contribution principle with distributable earnings divided among policyowners over the long term in proportion to their contribution to those earnings. A portion (2.5%) of distributed and undistributed earnings of the participating business is credited to shareholders. The amount available for transfer to shareholders is limited by the ICA to a specific portion of the total amount being distributed to policyowners and shareholders. Since 1994, the participating insurance fund of London Life has owned 10.6% of London Reinsurance Group. The participating insurance fund also owns 40% of the common equity of London Life International.

Profits from non participating products accrue to London Life's shareholders and, together with investment income on retained earnings, comprise the main source of shareholder earnings. Non participating products at London Life include all employee benefits products, all individual retirement and savings products, certain individual permanent insurance products, and individual term insurance. The shareholders also own 89.4% of the international reinsurance operations and 60% of the common equity of London Life International.

London Life is a member of the Canadian Life and Health Insurance Compensation Corporation (CompCorp) which is a federally incorporated private company established in 1988. CompCorp's objective is to protect, within limits, Canadian policyholders against loss of benefits should a member of CompCorp become insolvent. CompCorp guarantees apply to most of the types of financial products offered by member companies, including most money accumulation contracts such as annuities, RRSPs and RRIFs, as well as most life insurance and disability policies. Segregated fund and mutual fund assets directly support related customer funds, so no additional protection is needed. CompCorp is funded, when required, through assessments against the member companies to a maximum of 0.5% of qualifying premium income per calendar year. London Life was assessed $6.5 million in 1995, and $3.8 million in 1996 and, in addition, The Prudential paid $1.8 million in 1996 related to the business that London Life acquired. London Life has, as recommended by the Canadian Institute of Actuaries, provisions in actuarial liabilities to reflect assessments expected at current levels for the next three years in all business lines except health where the provision extends for one further year. London Life's maximum annual assessment rose to approximately $11 million with The Prudential acquisition. In 1994, London Life signed a loan commitment to CompCorp for $11.2 million. CompCorp has not yet drawn on this commitment. Further information on CompCorp can be obtained from the booklet titled "Consumer Protection for Canadian Life and Health Insurance Policyholders" available from London Life or CompCorp upon request.

A number of changes to enhance CompCorp were adopted in 1995. The failure of Confederation Life Insurance Company in August 1994 drew public attention to the operation of CompCorp and to the differences between CompCorp and the Canada Deposit Insurance Corporation (CDIC). On February 9, 1995, the Department of Finance released a discussion paper proposing several modifications to the regulatory environment; however, it did not support allowing the industry's consumer protection plan access to government financial backing, which CDIC enjoys. Instead, Finance proposed creation of a Policyowner Protection Board (PPB), funded by, but independent of, the industry, to replace CompCorp. In response, the industry changed CompCorp's Board to consist entirely of independent directors, tripled its borrowing power from member companies, enhanced CompCorp's ability to participate in "soft landing" resolutions of troubled companies and adopted an emergency fast-track approval process for additional assessments of 70% of the maximum for up to five years. The government welcomed these changes and did not proceed with the PPB proposal. In 1996, CompCorp implemented some changes to simplify and extend the application of coverage, particularly for group retirement plans.

CompCorp is working with CLHIA and the Office of the Superintendent of Financial Institutions, Canada (OSFI) to develop draft Standards of Sound Business Practice that will apply to member companies after adoption.

During 1996 London Life restructured its operating divisions to be more closely aligned with its customers' needs. The result was to create two distinct organizations: Individual Customers focused on meeting the insurance and savings/investment needs of our individual customers; and Group Customers serving our group customer needs.

Individual Customers

The Individual Customers organization is in the business of providing personalized financial security to Canadians throughout their lifetimes utilizing what customers perceive as a combination of valued advice, quality service and competitive products. The Individual Customers organization offers individual customers a wide variety of financial security products, including individual permanent and term life products, disability coverages and savings and retirement products. In addition, GICs and related products and mutual funds are provided through subsidiaries, The Trust Company of London Life and London Fund Management Limited respectively.

As the company's Freedom 55 advertising states, London Life's goal is to give people "The Freedom to Choose. The Power to Get There." This advertising supports the efforts of sales representatives by predisposing potential customers to meet with them.

Marketing and distribution

Individual Customers distribution strategy is "face-to-face selling" through a large, well-trained and productive field force aligned with the target markets. London Life operates under an exclusive company representation policy whereby the individual products are sold exclusively by the London Life sales force, and the sales force, with few exceptions, only sells London Life products. This policy benefits both the company and the customers by ensuring quality and consistency of service, product knowledge and high standards of sales conduct. Group products are sold by the individual sales force as well as through outside brokers and consultants.

The Individual Customers organization has three sales divisions. The largest are the District and General Sales Divisions, targeted at broad segments of the Canadian market. The Individual sales organizations are supported by employee benefits specialists. The combined sales force numbers approximately 3,600 people and is the largest in Canada.

The District Sales Division is the largest sales force of any insurance company in Canada and targets middle and lower income families. The number of representatives is now approximately 2,200. There are also more than 300 management personnel located in 95 offices across Canada.

The General Sales Division focuses mainly on middle to upper income families and small business owners. The General Sales Division now has more than 800 representatives and 100 managers located in 52 regional offices.

The Special Distribution Division contains three distinct units: the Estate Planning Partners is a small group of highly skilled and productive representatives focusing on a niche market among high net worth Canadians; Retirement Planning Services focuses on customers' retirement planning needs and has 40 sales representatives located in regional offices; and a direct marketing operation selling specialized product in support of sales representatives.

London Life's sales representatives are compensated, for the most part, on a commission basis. Commissions vary by type of product and are based on both new sales activity and service provided to existing customers. Sales management compensation is also based primarily on a commission override basis; however, annual incentive compensation is paid based on the attainment of regional sales, recruiting and other goals. An increasing portion of total field compensation is linked to servicing the existing customer base to provide further incentives for ongoing, superior customer service. Sales representatives are also supported by a coast-to-coast network of regional office staff and by access to customer service and sales support information.

London Life will compete successfully against traditional and non traditional competitors by earning and maintaining long term trust relationships with customers.

The industry leading market share in the individual insurance market and growing success in other product lines is attributed to the complete range of value added products, superior customer service and the size and skill of the sales organization. Recruiting, retention and ongoing training of the sales representatives and managers are critical to achieving corporate objectives.

London Life sells a broad range of individual life, health, accident and sickness and disability insurance products. The life insurance portfolio includes participating and non participating permanent plans and term plans.

Participating permanent insurance plans have level premiums, pay dividends to policyowners, provide benefits at death, and also build up cash values that may be used to secure policy loans or held until cash or retirement needs arise. London Life's major competitors for permanent participating insurance plans are other major Canadian insurance companies who distribute similar products through sales agents. Non participating permanent plans, including universal life, have similar features but policyowners do not share in the profits of the business through dividends.

Term insurance plans provide protection and pay death benefits within a specified period of time. Unlike many permanent plans, most term plans do not build up any cash value. However, since premiums are initially considerably lower than permanent plans for the same amount of coverage, these products address a market where maximum protection is needed for a specific period of time. These products are normally not differentiated through features, but are sold mainly based on competitive prices. London Life's major competitors in this market are large insurance companies and those smaller companies that distribute their products through brokers and other financial intermediaries.

London Life distributes Paul Revere individual income disability insurance in lieu of developing its own brand.

In order to limit underwriting risks, a saliva test is required for policies of $75,000 and over, and blood tests are required for amounts of $500,000 and over. To limit exposure to large losses, individual risks in excess of $2 million are reinsured.

The following table breaks out London Life's individual participating and non participating premium income in Canada, and the amount of insurance in force:

London Life individual insurance

Years ended December 31 (millions of dollars)	**1996**		1995		1994		1993		1992	
PREMIUMS										
Participating	**$ 981**	**89.6%**	$ 812	89.0%	$ 778	89.8%	$ 766	91.0%	$ 738	92.0%
Non participating	**114**	**10.4**	100	11.0	88	10.2	76	9.0	64	8.0
Total	**$ 1,095**	**100%**	$ 912	100%	$ 866	100%	$ 842	100%	$ 802	100%
INSURANCE IN FORCE										
Participating	**$ 72,502**	**78.2%**	$ 55,201	75.6%	$ 55,075	77.3%	$ 54,949	75.5%	$ 53,962	76.3%
Non participating	**20,206**	**21.8**	17,793	24.4	16,172	22.7	17,825	24.5	16,773	23.7
Total	**$ 92,708**	**100%**	$ 72,994	100%	$ 71,247	100%	$ 72,774	100%	$ 70,735	100%

Retirement products

Over the last five years, London Life has significantly increased its product offerings and field force training to address the growing retirement savings and retirement income markets. Sales of retirement savings products which are registered for income tax purposes display a seasonal peak in the first calendar quarter of the year. Historically, 40% of the sales for a given year have been made during this period.

London Life competes with major banks, trust companies, mutual fund companies, and life insurers in the registered (RRSP) market, the non registered savings/investments market and the retirement income market through personalized service and competitive product, rates and performance. The individual savings portfolio includes deferred annuities (similar to GICs) and segregated funds (similar to mutual funds). In addition, mutual funds, called MAXXUM, are offered and Trust Co. offers other unique products. In the retirement income business, products include a full range of annuities, RRIFs and LIFs. To be successful in this market, it is essential to ensure an ongoing source of high quality investments. London Life's Mortgage Division provides a cost effective supply of high quality mortgage investments (see "Mortgages").

The following table sets forth London Life's individual savings, group retirement products and retirement income premiums and individual and group segregated funds deposits in Canada, and the percentage that each represents of the total. (Group retirement products are detailed further in the Group Customers section which follows.)

London Life retirement product premiums, segregated and mutual funds deposits

Years ended December 31 (millions of dollars)	**1996**		1995		1994		1993		1992	
Individual savings	**$ 201**	**19.9%**	$ 247	35.4%	$ 204	23.6%	$ 219	28.7%	$ 211	34.3%
Group retirement products	**121**	**12.0**	124	17.8	92	10.7	110	14.4	126	20.4
Retirement income	**137**	**13.6**	156	22.3	133	15.4	129	16.9	149	24.2
	459	**45.5**	527	75.5	429	49.7	458	60.0	486	78.9
Segregated funds	**441**	**43.7**	171	24.5	435	50.3	305	40.0	130	21.1
Mutual funds	**109**	**10.8**	–	–	–	–	–	–	–	–
Total	**$ 1,009**	**100%**	$ 698	100%	$ 864	100%	$ 763	100%	$ 616	100%

The Trust Company of London Life

The Trust Company of London Life was incorporated on October 20, 1995 and began operations on February 5, 1996 by offering products in Ontario, Manitoba, Saskatchewan and Alberta. During 1996, Trust Co. obtained the necessary approval to conduct business in all provinces in Canada.

Trust Co. currently offers GICs and equity-linked GICs. Future offerings will include RRIFs, mutual funds, self-directed RRSPs, RRSP loans, RESPs, wills, trust services and other products which complement London Life's retirement savings product portfolio.

Trust Co. has continued to move towards a virtual organization by outsourcing the back office administration. This outsourcing increases Trust Co.'s administrative flexibility and lowers the initial capital investment in systems.

Trust Co. is a manufacturer of products and services, with distribution to London Life representatives being handled by London Fund Management Limited (LFML). LFML will be the distributor and provide sales support for trust products and services as well as mutual funds offered.

London Fund Management Limited

With the acquisition of most of the Canadian operations of The Prudential this year, London Life took ownership of the mutual fund management company, Prudential Fund Management Corporation. The name was changed to LFML and as of August 1, 1996, it became a subsidiary of London Life Insurance Company.

This mutual fund company managed $581 million of assets at the time of acquisition and distributed its funds primarily through licensed Prudential representatives, and through a number of broker/dealers. London Life retained the investment management team located in Toronto. The investment performance of this group of funds has been excellent. A number of changes have been made to the mutual fund product in preparing to increase marketability and expand product distribution.

The name of the funds was changed to MAXXUM group of funds and a simplified prospectus was introduced. The administration of the mutual fund business is being outsourced to an outside supplier in 1997 so that LFML will focus on its competencies of investment management, marketing and distribution channel relationships. Outsourcing will enable integrated customer statements and excellent customer service without direct investment in information systems.

Unitholders have approved increases in the funds investment management fees which will permit the introduction of a back-end sales charge option in early 1997. London Life's sales force is being trained and registered to sell mutual funds, which had not been available prior to the acquisition. In December 1996, over 1,000 London Life representatives were in the process of becoming licensed and more than 1,500 are expected to be licensed by the end of 1997.

To offer more choice to London Life customers and present the London Life distribution force as objective advisors for fund business, some selective third party funds will also be made available in early 1997 through LFML. LFML is the sponsor of the mutual fund registration for sales representatives, provides sales support to them and will be the source for all the mutual fund and trust products available to London Life sales representatives.

Group Customers

London Life provides a wide range of financial security products to groups and their members. With the acquisition of The Prudential operations, London Life competes in the group market with two distribution arms aligning with two market segments. London Life's Group Customers organization has been structured to maximize growth through two distinct distribution arms – Agency and Broker/Consultant. The Agency operation works in partnership with the individual sales divisions to meet the needs of Group Customers. The Broker/Consultant operation focuses on meeting the needs of customers (with a minimum of 50 employees) who choose to employ a broker or consultant as an intermediary between themselves and an employee benefits provider. Employee benefits professionals are supported by administrative staff in London, Scarborough and through a network of more than 30 regional offices across Canada. London Life is a leading provider of life and health insurance benefits in Canada with more than 16,000 businesses – a total of 1.6 million covered employees.

Both sales and service forces use a "face-to-face" approach that emphasizes development of customer relationships and delivery of advice and superior value in meeting customer needs. This is supported through regional offices across Canada, backed by computer systems both in the regional offices and in head office.

Group life and health products

London Life sells group life, health and disability insurance coverage on a non participating basis. Both health and disability coverage are sold on an insured basis, where London Life assumes substantially all, or part of the claims risk, or on an Administrative Services Only (ASO) basis, where plan administration and claims payment services are provided on a fee-for-services basis. ASO plans are attractive to large employers willing to self-insure substantially all of their claims expense in exchange for lower premiums.

Most group life and health coverages are issued under contracts providing for their periodic repricing, normally annually. Most contracts with large groups (over 100 covered members) also provide for some risk sharing between London Life and the group through experience refunds based on claims experience. Pooling of risks across a large base of small groups, and risk sharing arrangements on large groups, act to help stabilize the effects of claims fluctuations. To limit risk, insurance amounts over $500,000 for life and $6,000 monthly income for long term disability are reinsured.

The following table sets forth London Life's group life and health premium income in Canada, and the percentage of such premiums relative to the total:

London Life group life and health premiums and equivalents

Years ended December 31 (millions of dollars)	**1996**		1995		1994		1993		1992	
Life insurance	**$ 126**	**15.5%**	$ 90	16.4%	$ 96	17.7%	$ 84	16.7%	$ 87	17.9%
Health insurance	**473**	**58.3**	319	58.2	314	57.8	285	56.8	288	59.1
ASO equivalents	**213**	**26.2**	139	25.4	133	24.5	133	26.5	112	23.0
Total	**$ 812**	**100%**	$ 548	100%	$ 543	100%	$ 502	100%	$ 487	100%

Group retirement products

Retirement products are offered to meet the needs of employers wishing to provide either registered pension or retirement savings plans to their employees. London Life offers a variety of investment alternatives ranging from fully guaranteed forms to fully variable forms, based on the performance of segregated fund and mutual fund investments. London Life manages a number of pooled segregated asset funds on a fee-for-service basis. These funds, together with offerings of funds by other, third party fund managers, provide customers with access to a variety of professionally managed funds and provide a growing source of fee income to London Life.

The table on page 15 sets forth London Life's group retirement products premiums. Group segregated fund deposits are included with individual deposits in this table.

Specialty insurance

London Guarantee provides surety, fidelity, directors' and officers' and professional liability insurance to businesses and organizations in specified niche markets in Canada. Products are distributed through a network of over 1,600 independent insurance brokers.

London Guarantee key statistics

(millions of dollars)	**1996**	1995	1994	1993
Total assets	**$ 164.2**	$ 97.3	$ 44.2	$ 27.5
Capital				
Preferred	**43.9**	43.9	–	–
Common	**10.2**	10.2	8.4	4.8
Total	**54.1**	54.1	8.4	4.8
Net income to common	**9.3**	5.5	3.6	1.7
Gross premiums written	**$ 72.1**	$ 68.5	$ 43.9	$ 19.9

In the specialty general insurance industry, competitive differentiation is difficult to achieve since many products are sold on a commodity basis. London Guarantee stresses careful underwriting, solid relations with its key brokers and control of operating costs.

In order to limit exposure to loss, approximately 32% of the premium on most business written by London Guarantee is ceded through a series of reinsurance agreements. In addition, the exposure to a single loss is limited to $750,000.

London Guarantee ratios

(per cent)	**1996**	1995	1994	1993	1992
Weighted average loss ratio	**21.8%**	25.5%	23.5%	29.9%	29.6%
Expense ratio	**45.5**	46.6	50.5	48.3	52.1
Combined ratio	**67.3%**	72.1%	74.0%	78.2%	81.7%

International Operations

London Insurance Group conducts operations internationally, through Security First Group in the U.S. and through subsidiaries of London Life.

London Insurance Group provides specialty reinsurance products to international markets through London Reinsurance Group, a subsidiary of London Life. Participation in the growing insurance markets of the Asia Pacific region is conducted through the London Life subsidiary, LLI, based in Malaysia, with a Taiwan joint venture, Shin Fu.

In the United States, Security First Group designs, markets, underwrites and administers tax-advantaged investment and retirement savings products (annuities).

Reinsurance operations

London Reinsurance Group offers reinsurance products in international markets. Products include specialty and traditional life and property-casualty reinsurance, accident and health reinsurance and annuity coinsurance. LRG writes reinsurance contracts internationally through its operating subsidiaries in Barbados, Ireland and the United States. Since 1989, LRG has grown to become an innovative and highly regarded company in these markets. LRG's business is important to London Insurance Group because it allows the Company to participate selectively in defined risks in attractive markets, and provides geographical and market diversification from its retail insurance operations.

The economic basis of reinsurance is that, in exchange for a share of the premiums received from the insurer, the reinsurer agrees to pay its share of claims on the risks reinsured under a contract of reinsurance. LRG assumes a limited and controlled amount of risk in its contracts which are customized to meet the business needs of its customers. Reinsurance buyers use these products as financial planning and risk management tools to manage the short term impact of fluctuations in business growth and claims experience on earnings and regulatory capital. Customers are direct insurers and other reinsurers. LRG's philosophy is to build long term trust relationships with its customers.

Demand for specialty reinsurance products is affected by short term changes in the level of a client's earnings and the adequacy of its regulatory capital. Changes in insurance regulations and tax legislation in the country of the domicile of the client which adversely affect earnings or capital adequacy will likely increase the demand for this type of reinsurance. Given the greater regulatory attention paid to insurer solvency, and the emergence of risk-based capital requirements in major jurisdictions such as the United States, the demand for specialty reinsurance is expected to increase over time.

LRG participates in specialty risk reinsurance through its subsidiaries which design, underwrite and market customized reinsurance contracts to major insurance companies worldwide, with its focus on the United States, Europe, Latin America and Asia. Reinsurance typically includes credit risk as well as insurance risk. It is important to identify financially strong customers, to evaluate the quality of their risk underwriting, and to conduct an independent credit evaluation. The business also requires close attention to enabling insurance and tax legislation in the target country, as well as to diversification of risks.

The property casualty (P&C) line writes finite risk catastrophe reinsurance where the aggregate amount of reinsured claims is limited in the reinsurance contract. LRG also writes traditionally priced and structured P&C contracts, primarily on a retrocession basis. Life reinsurance contracts written by LRG include: surplus relief contracts which allow an insurer to recognize future profits from a block of business immediately; various forms of stop-loss reinsurance which allow the insurer to reduce volatility inherent in certain lines of business; and coinsurance transactions in which LRG participates fully in the profitability of the reinsurance business.

Accident and health (A&H) reinsurance involves participation in professionally managed accident and health pools, in whole blocks of business and in individual risks. Income is determined by the claims experience of the insured risk. Diversification of risk is achieved by maintaining a small participation in a large number of pools. Since 1993, LRG has expanded this activity to include underwriting and rating cases submitted by leading A&H brokers in Europe and the United States.

In 1992, the company expanded its product range to include another specialty risk line, annuity coinsurance in the United States, wherein LRG participates with the insurer in the profitability of its annuity business. This business line allows LRG to utilize its investment, asset liability management and product expertise. Annuity coinsurance has successfully expanded throughout 1996. Annuity reinsurance is expected to continue to grow as a result of risk-based capital rules in the United States and from the increasing demand by an aging population for savings and retirement products.

In 1996, rating firm A.M. Best gave an A+ rating to LRG's Philadelphia-based life reinsurance company, and an A rating to London Life and Casualty Reinsurance Corporation, the multi-line reinsurer based in Barbados. Late in the year, the Dublin-based London Life and General Reinsurance Company Limited also received an A rating from A.M. Best. These ratings are key to demonstrating financial strength and fostering positive relationships with both clients and intermediaries.

Also in 1996, LRG purchased 80.1% of Shippan International Insurance Company Limited, a Bermuda reinsurer. Shippan was redomesticated to Barbados and will be an active writer of finite risk reinsurance in the U.S. property casualty market.

Overall, LRG views its selected businesses as opportunities to earn excellent returns on well controlled and managed risk exposure. By prudent diversification, close attention to risk underwriting, credit analysis and contract structuring, LRG expects to make a growing contribution to the net income of London Insurance Group.

LRG plans to expand the lines of reinsurance it offers in a controlled way as it builds its expertise in these specialty markets. Risk is managed in this business through the hiring of specialty underwriters, customizing reinsurance agreements, diversification both geographically and by type of risk, selective risk retention and through the purchasing of retrocession protection from other reinsurers (ceding some risks to other reinsurers).

Key financial statistics of London Reinsurance Group are in the following chart:

London Reinsurance Group key statistics

(millions of dollars)	**1996**	1995	1994	1993	1992
Total assets	**$ 3,047.4**	$ 2,156.3	$ 1,711.7	$ 949.8	$ 587.8
Net income to common	**$ 58.2**	$ 51.2	$ 38.1	$ 28.4	$ 26.5
Return on common equity	**11.0%**	9.6%	9.4%	8.1%	9.8%
Total premiums	**$ 969.1**	$ 1,218.0	$ 995.8	$ 573.5	$ 267.4

London Life International Corporation

Late in 1994, London Life International Corporation established a regional centre in Kuala Lumpur, Malaysia. As the regional hub in Asia, LLI provides ongoing support to the operating companies in Asia, and will continue efforts to identify and develop profitable retail life insurance operations in Asia, providing the Company with an opportunity to enjoy superior returns in the long term.

The establishment of LLI focuses London Insurance Group's presence in the dynamic Asia Pacific region. LON is focusing on the Asia Pacific region because there are significant opportunities for growth as many of the markets are underinsured and the savings rate is 30% or more in almost every country. This high savings rate, coupled with equally high investment rates and large current account surpluses in many Asian economies, make Asia Pacific an important net source of investment capital and a key component in the international financial system. LLI's success depends on achieving greater access to the Asian markets and on developing initiatives resulting in competitive advantage to London Life. Over the long term, the Asia Pacific markets have the potential to provide a sustainable superior rate of return and provide growth that outpaces the Canadian market.

Investing in these markets, at this time, will enable us to participate in this future. LLI expects Asians will control Asia's financial markets. The Company's philosophy of working within joint venture partnerships with strong domestic partners give it competitive advantage in the search for the right opportunity. It also focuses attention on making the right partner decision including ensuring the partners share the same values, goals and expectations. In this regard, in October 1993, London Life commenced its first retail insurance operations in Asia with the opening of Shin Fu in Taiwan.

During 1994, London Life received approval for a representative office in Beijing, through which it is learning the markets and establishing business contacts and relationships in preparation for an eventual start of retail insurance operations in China. In late 1996, having met the requirement of having a representative office established for two years, an application for a life insurance license was submitted to the People's Bank of China. Funding continues for the London Life Executive Scholarship Program which was established to assist China to develop its future life insurance professional managers. The company also continues to provide support to various programs sponsored by a number of associations with regard to the emerging life insurance industry in Asia. Good progress was made in 1996 to further develop strong, ongoing relationships with potential joint venture partners.

Elsewhere in the region, potential joint venture opportunities in Malaysia are being assessed and in India research has been conducted in the life insurance market and contacts established with potential joint venture partners in anticipation of that market opening up in 1997. Other markets in Southeast Asia are also under review.

Shin Fu Life Insurance Company

In October 1993, London Life commenced its first retail insurance operations in Asia with the opening of Shin Fu Life Insurance Company in Taiwan. Shin Fu was the first domestic insurance company in Taiwan with a foreign partner. Shin Fu is capitalized at 2.2 billion New Taiwan dollars, or about CDN$110 million. London Life's share of the joint venture was increased in 1996 from 30% to 40%.

Shin Fu continued its growth strategy in 1996 with premiums more than doubling the 1995 level. Through more than 2,900 full and part time representatives, Shin Fu distributes a variety of life insurance and endowment products to the broad middle market in Taiwan. In depth training, adapted from London Life's successful training programs, have allowed Shin Fu representatives to differentiate themselves in the marketplace. Throughout 1996, focus was placed upon increasing the productivity and persistency of the field force, and establishing the necessary processes to allow for managing future profitability. Since Shin Fu is a start-up venture, it will take some time for profits to emerge.

The continued rapid growth in 1996 will, as expected, result in a need for additional capital from both joint venture partners in order to meet Taiwan's legislated minimum capital requirements.

Shin Fu key statistics

(millions of dollars)	**1996**	1995	1994	1993
Corporate assets	**$ 96**	$ 108	$ 120	$ 109
Capital and retained earnings	**59**	81	118	108
Insurance premiums	**60**	25	1	–
Insurance in force	**$ 2,727**	$ 1,165	$ 102	$ –
Number of representatives	**2,933**	2,623	36	–
Administrative employees	**311**	224	54	18

Security First Group, Inc.

Security First Group sells a number of specialty retirement investment products to specific target markets. The principal markets for its payroll deduction annuity products are employees of educational institutions and state and municipal governments. Its single premium deferred annuities are targeted primarily to the customers of financial institutions. Since 1990, Security First Group has held the exclusive endorsement of the American Bankers Association (A.B.A.) to market and administer Security First Group's products to the approximately 12,000 member banks of the A.B.A.

Profits from Security First Group arise from three main sources: excess of investment earnings over amounts credited to customers; administration fees; and returns on surplus.

The following table provides the key business measures for Security First Group in Canadian dollars for the years indicated:

Security First Group key statistics

(millions of dollars)	**1996**	1995	1994	1993	1992
Policyholder values under administration	**$ 6,230.0**	$ 5,703.3	$ 5,232.9	$ 4,797.8	$ 4,286.7
Corporate assets	**4,222.0**	3,615.0	3,033.5	2,640.8	2,058.9
Premiums	**801.8**	631.1	526.9	513.0	418.3
Capital and retained earnings	**221.2**	213.9	132.3	108.2	92.4
Net investment income	**222.4**	221.8	205.8	178.7	158.5
Interest credited to policyowners	**144.9**	133.5	135.9	132.1	111.3
Gross investment spread	**82.5**	77.2	68.9	46.8	47.2
Fees and other income	**28.9**	14.5	17.1	17.8	22.2
Net income to common	**$ 18.6**	$ 16.3	$ 17.6	$ 13.0	$ 8.9

Security First Group markets and distributes its products primarily through two marketing divisions. The Public Services Division markets to over 3,500 school districts and 70 state and municipal governments nationwide through their captive sales force. This distribution network is augmented by a home office telemarketing staff. The Banking Division markets its products through financial institutions. In large regional banks, Security First Group utilizes a "wholesale" approach where it operates as a product provider in bank-managed programs. In smaller community banks, Security First Group offers a full service marketing program in which it provides training and support in addition to products.

Security First Group also markets third party administrative services, primarily to the government deferred compensation market, through dedicated sales personnel.

Investment Operations

Investment activities

Investment portfolios for London Insurance Group, London Life, London Reinsurance Group, Security First Group and London Guarantee are managed in London Life's investment department. Consolidating the investment advisory function and portfolio management has permitted economies of scale and access to a wider range of investment products and services for the smaller portfolios of some of the London Insurance Group companies. As well, London Insurance Group is able to apply a consistent approach to asset liability management, quality and liquidity controls in all portfolios.

In recognition of its various constituent interests, including those of participating policyowners as well as shareholders, London Life has established its own Investment Committee. London Insurance Group's Board of Directors has delegated authority for investment policy to its Investment Committee which, in turn, has delegated operating authority to the investment department (see "Corporate Governance").

Investment activities of London Insurance Group's Canadian companies are conducted in accordance with the federal ICA. Investment activities for Security First Group are conducted in accordance with regulations of the state of Delaware, which is Security First Group's state of domicile, and the National Association of Insurance Commissioners.

The credit ratings of London Insurance Group and all rated LON companies are disclosed on page 33 of the 1996 Annual Report of London Insurance Group. To a significant degree, ratings of LON companies are supported by the history of stringent credit control and effective asset liability management as practiced within London Insurance Group.

Mix of invested assets

(millions of dollars)	**1996**		1995		1994		1993		1992	
Cash and short term deposits	**$ 753**	**3.2%**	$ 797	4.5%	$ 599	3.7%	$ 583	3.8%	$ 495	3.4%
Bonds	**10,619**	**46.2**	7,399	42.2	6,615	40.6	5,896	38.6	4,922	34.1
Mortgages	**7,635**	**33.3**	5,649	32.2	5,314	32.6	5,405	35.4	5,658	39.2
Equities	**978**	**4.3**	860	4.9	1,132	7.0	1,319	8.6	1,437	9.9
Real estate	**988**	**4.3**	1,234	7.0	1,154	7.1	1,176	7.7	1,285	8.9
Policy loans	**933**	**4.1**	670	3.9	629	3.9	580	3.9	543	3.8
Securities in trust	**1,050**	**4.6**	937	5.3	833	5.1	312	2.0	108	0.7
Total	**$ 22,956**	**100%**	$ 17,546	100%	$ 16,276	100%	$ 15,271	100%	$ 14,448	100%

Investment policies
Investment policies in London Insurance Group companies are developed to support and realize the objectives of the underlying businesses. Investment strategies differ in support of different lines of business, but reflect a common emphasis on quality of assets, matching of assets and liabilities and management of investment risks.

Investments supporting life insurance operations are primarily in bonds and mortgages, reflecting the longer term nature of life insurance and annuity obligations. Assets supporting shareholders' surplus are invested in equities and real estate, in addition to fixed-income securities. Investments supporting the specialty general insurance operations also emphasize fixed-income assets, but are generally of shorter maturities in line with the shorter term nature of the underlying liabilities and fluctuations in claims experience. Investments supporting reinsurance operations are in high quality medium term bonds.

Asset mix strategies are an integral part of the Company's business plan and annual operating budget, and are developed in coordination with the marketing strategies and risk profiles for the underlying lines of business. Investment strategies by asset class are reviewed formally at least quarterly with the Investment Committee, and are monitored continually by portfolio managers in light of changing economic and capital market conditions.

Asset liability management
An important aspect of the investment policies for all London Insurance Group companies is the control of risk through the management of assets and liabilities.

Investment strategies are directly linked to liability profiles. In determining the appropriate asset mix, characteristics of the relevant segment of liabilities are examined. These include interest rate, term, variability and size of future cash flows, liquidity requirements and risk tolerance.

It is recognized that various products have different characteristics. Of particular importance in London Life is the equitable treatment of participating policyowners and non participating policyowners and shareholders. Investment strategies ensure that the investment needs of all stakeholders are taken into account and that all are treated fairly.

The term and cash flow of assets are managed in accordance with the term and cash flow of liabilities. Extensive use is made of debt instruments, including residential and commercial mortgages, and public and private placements. The trade-off between yield and credit risk is carefully managed. Where appropriate, derivative instruments are utilized to help manage a cashflow mismatch position.

Liquidity risk is also actively managed, recognizing that some liabilities can be called on short notice. Liquidity risk is controlled through product design, careful planning, and maintenance of appropriate reserves of liquid assets. The control of liquidity risk through product design involves product features which encourage the maintenance of deposits to manage mismatches of assets and liabilities. Careful planning for liquidity risk involves ensuring the proper design of products and matching cash flows. Liquidity reserves are maintained to provide a cushion against fluctuations in the need for short term liquid assets, in addition to anticipated needs based on experience. The cash position of each line of business is reviewed daily.

The ICA does not impose any explicit requirements respecting asset and liability management. However, any company incorporated and registered under the ICA (such as London Life) is required to file annual statements and information with the Office of the Superintendent of Financial Institutions regarding its condition and affairs. The filings are reviewed by OSFI for a variety of matters including solvency and compliance with the policy reserve requirements. OSFI also will generally review the filings to consider the appropriateness of asset liability management.

Bonds, debentures and short term deposits

Investment strategies in fixed income portfolios emphasize matching of asset maturities and cash flow with estimated liability requirements. Publicly traded bonds held in the portfolio are also used as a source of secondary liquidity. Primary liquidity needs are met through the portfolio of short term securities and cash flow.

The acquisition of The Prudential added $1.9 billion of bonds to London Life's portfolio, with over 86% rated A or better.

As at December 31, 1996, there were no non performing bonds (1995: $17 million). Impaired bonds totalled $15 million (1995: $47 million). The allowance for loss at year end 1996 was $1 million (1995: $5 million). There were $1 million of actual credit losses realized in the year (1995: nil).

The following table summarizes the breakdown of the portfolio, and quality ratings as determined by recognized credit rating agencies, as at the dates indicated:

Asset quality – cash and short term deposits, bonds and debentures

As at December 31 (millions of dollars)	**1996**		1995	
Bonds and debentures				
Government	**$ 5,693**	**50.1%**	$ 4,148	50.6%
Corporate AAA and AA	**1,501**	**13.2**	930	11.4
A	**2,133**	**18.7**	1,388	16.9
BBB	**1,032**	**9.1**	675	8.2
BB and lower	**260**	**2.3**	258	3.2
Cash and short term deposits	**753**	**6.6**	797	9.7
Total book value	**$ 11,372**	**100%**	$ 8,196	100%
Market value	**$ 12,027**		$ 8,872	

Holdings of debt securities issued by related parties comprised $3 million (0.03%) of the total bond and debenture portfolios as at December 31, 1996, and $3 million (0.04%) as at December 31, 1995.

The overall credit rating of the holdings in Security First Group's portfolios is Aa3. Approximately 42% of the portfolio consists of residential mortgages which are rated AA and AAA. Approximately CDN$230 million (US$168 million) of Security First Group's portfolio is held in non investment grade securities for the purpose of increasing investment income at an acceptable level of risk. The exposure to high yield bonds has been fixed by the Board of Directors at the current level (approximately 8% of the U.S. portfolio).

Mortgages

The mortgage portfolio composition is a diverse mix of residential, commercial, and apartments. Our mortgage portfolio continues to maintain above average asset quality, with an arrears ratio well below the industry average.

In 1996, the acquisition of The Prudential increased our holdings in commercial, apartments and residential mortgages by $1.7 billion.

Residential mortgages are sourced through an exclusive sales force who work with brokers and real estate agents to obtain referrals. Mortgage specialists are dispersed across the country. The administrative functions are mostly centralized in London, with five regional centers performing some administrative functions. We expect to see a continuing trend toward administrative consolidation, with a project underway to implement a Call Center.

London Life will arrange to sell excess residential mortgage product to interested third parties and trusts, which generates minimal spread income after hedging costs. From 1992 to 1995 London Life issued in excess of $1 billion in MBS pools which also provide a small net spread. Almost half of these MBS pools will mature in 1997.

The composition of the mortgage portfolio and geographic distribution are summarized in the table below for the dates indicated:

Geographic distribution of mortgages

As at December 31 (book value in millions of dollars)				**1996**				1995
	Residential	**Apartments**	**Commercial**	**Total**	Residential	Apartments	Commercial	Total
Newfoundland	**$ 6**	**$ –**	**$ 22**	**$ 28**	$ 4	$ –	$ 3	$ 7
Nova Scotia	**54**	**35**	**79**	**168**	46	35	68	149
New Brunswick	**20**	**8**	**37**	**65**	14	8	1	23
Quebec	**621**	**140**	**414**	**1,175**	335	146	283	764
Ontario	**1,850**	**870**	**1,542**	**4,262**	1,272	748	1,164	3,184
Manitoba	**57**	**50**	**53**	**160**	56	53	12	121
Saskatchewan	**30**	**7**	**3**	**40**	22	7	4	33
Alberta	**381**	**52**	**51**	**484**	328	39	36	403
British Columbia	**826**	**140**	**283**	**1,249**	629	120	214	963
Outside Canada	**3**	**–**	**1**	**4**	1	–	1	2
Total	**$ 3,848**	**$ 1,302**	**$ 2,485**	**$ 7,635**	$ 2,707	$ 1,156	$ 1,786	$ 5,649

The estimated market value of the mortgage portfolio at December 31, 1996 was $8,047 million compared to $5,899 million at December 31, 1995. The portfolio market value is estimated by London Insurance Group using prevailing residential mortgage rates by term, and prevailing commercial mortgage rates by term, as at the dates indicated.

London Insurance Group adopted the new impaired loans section of the CICA Handbook in 1995. London Insurance Group companies do not accrue interest on mortgages if payments are in arrears 90 or more days, or when, in the opinion of management, there is reasonable doubt concerning the future collectability. When mortgages reach 90 days in arrears, all accrued interest is reversed in accordance with the requirements of OSFI. Management regularly reviews mortgage arrears and makes provisions for losses, which are charged against income as deemed prudent and necessary.

Mortgage quality

(millions of dollars)	Residential	Apartments	Commercial	**1996** Total	1995 Total
PRINCIPAL					
Uninsured principal	$ 2,057	$ 745	$ 2,485	$ 5,287	$ 4,142
Insured amount	1,791	557	–	2,348	1,507
Total outstanding	$ 3,848	$ 1,302	$ 2,485	$ 7,635	$ 5,649
UNINSURED IMPAIRED MORTGAGES					
Uninsured arrears greater than 90 days	$ 14	$ –	$ 12	$ 26	$ 22
Other impaired	–	–	15	15	18
Total	$ 14	$ –	$ 27	$ 41	$ 40
ALLOWANCES					
Uninsured arrears greater than 90 days	$ 1	$ –	$ 12	$ 13	$ 13
Other impaired	1	–	6	7	7
Total	$ 2	$ –	$ 18	$ 20	$ 20

Loan loss allowances for mortgages in arrears

December 31 (millions of dollars)	**1996**	1995
Allowances		
In arrears less than 90 days	$ –	$ –
In arrears 90 to 179 days	–	1
In arrears 180 days or more	13	12
Total	$ 13	$ 13
As a percentage of mortgage portfolio	0.2%	0.2%
As a percentage of uninsured mortgages in arrears	50.0%	59.1%
Actual losses incurred	$ 8	$ 16

Provisions are set up on a loan by loan basis by comparing the outstanding principal balance, including unpaid and accrued interest, to the underlying security and determining the amount of shortfall, if any.

Equity investments

Investments in preferred and common equities are made for purposes of generating dividend income and for long term capital appreciation. The following table summarizes equity holdings, and quality ratings of preferred shares, as determined by rating services, as at the dates indicated:

Asset quality – equity investments

December 31 (millions of dollars)	1996		1995	
PREFERRED SHARES				
P-1	**$ 108**	**74.0%**	$ 117	60.0%
P-2	**36**	**24.6**	65	33.3
P-3	**1**	**0.7**	12	6.2
Amortized unrealized gain	**1**	**0.7**	1	0.5
Total book value	**$ 146**	**100%**	$ 195	100%
Market value	**$ 146**		$ 198	
COMMON SHARES	**$ 804**		$ 653	
Amortized unrealized gain	**28**		12	
Total book value	**$ 832**		$ 665	
Market value	**$ 922**		$ 686	

The amortized unrealized gain and loss accounts represent unrealized gains and losses being amortized at 15% of the unamortized balance per year.

At December 31, 1996, $34 million or 4.1% of the common stock portfolio was comprised of common shares issued by related parties ($27 million or 4.1% in 1995). There were no related party preferred share holdings at year end 1996 ($1 million or 0.5% in 1995).

Real estate

Investments in real estate, both direct and indirect through ownership interests in real estate corporations, are made for purposes of both rental income and long term appreciation in value. The following tables summarize the real estate portfolio by category and geographically, for the dates indicated:

Income producing properties

December 31 (millions of dollars)	1996		1995	
	Book Value	Appraised Value	Book Value	Appraised Value
Nova Scotia	**$ 11**	**$ 6**	$ 22	$ 10
Quebec	**47**	**42**	55	39
Ontario	**545**	**519**	630	494
Manitoba	**54**	**64**	54	68
Saskatchewan	**59**	**54**	62	58
Alberta	**16**	**16**	16	16
Outside Canada	**3**	**3**	3	3
	735	**704**	842	688
Amortized unrealized gain	**3**	**–**	70	–
Total income producing	**738**	**704**	912	688
Less: minority interest	**(57)**	**(57)**	(31)	(30)
Net income producing	**$ 681**	**$ 647**	$ 881	$ 658

At December 31, 1996, 91% of available space in the income producing portfolio was leased, no change overall from December 31, 1995.

Income producing properties are appraised by independent real estate appraisers.

Commencing January 1986, Canadian insurance companies were required by OSFI to have their real estate properties appraised at least every three years or whenever market values are deemed to be materially different from appraised values and to take 10% of the gains or losses, whether realized or unrealized, into income each year. This accounting policy has the effect of reducing income volatility caused by short term fluctuations in market value, and matching investment income with the long term nature of the business.

A Guideline, adopted by the Canadian Institute of Chartered Accountants, which will become effective in 1997, has the effect of accelerating the recognition of market value deficiencies (determined net of deferred realized gains) on real estate, retroactively reducing cumulative income of prior periods, and increasing income of future periods. The Company has adopted this Guideline in 1996 on a retroactive basis, with no restatement of prior years' balance sheets, resulting in:

(i) for shareholders, a $77 million increase in the provision for other-than-temporary declines in real estate, and an after tax decrease of $64 million to retained earnings as at January 1, 1996; and

(ii) for the participating fund, a $173 million increase in the provision for other-than-temporary declines in real estate, and an after tax decrease of $139 million to the participating policyowners' interest as at January 1, 1996.

The real estate provision, coupled with not acquiring any real estate as part of The Prudential acquisition, has reduced the real estate percentage of total assets from 6.5% in 1995 to 4.0% in 1996.

The following table summarizes properties under development in the real estate portfolio:

Land under development

December 31 (millions of dollars)	**1996**		1995	
	Book Value	**Appraised Value**	Book Value	Appraised Value
Quebec	**$ 16**	**$ 11**	$ 36	$ 11
Ontario	**51**	**47**	95	56
Alberta	**2**	**2**	2	2
	69	**60**	133	69
Amortized unrealized gain (loss)	**(10)**	**–**	2	–
Total development	**59**	**60**	135	69
Less: minority interest	**(6)**	**(6)**	(6)	(6)
Net development	**$ 53**	**$ 54**	$ 129	$ 63

The Company has significant investment in real estate operated as rental retirement homes. These are considered sufficiently unique as to be reported separately from the other income producing properties, and are reported below:

Retirement homes

December 31 (millions of dollars)	**1996**		1995	
	Book Value	**Appraised Value**	Book Value	Appraised Value
Ontario	**$ 129**	**$ 128**	$ 125	$ 121
Manitoba	**9**	**9**	9	9
British Columbia	**54**	**52**	54	47
	192	**189**	188	177
Amortized unrealized (loss)	**(1)**	**–**	(1)	–
Total retirement homes	**191**	**189**	187	177
Less: minority interest	**–**	**–**	–	–
Net retirement homes	**$ 191**	**$ 189**	$ 187	$ 177

Policy loans

Under most permanent life insurance policies and some annuities issued by London Life, the individual policyowner has the right to obtain a policy loan on the security of the cash value of the policy. These loans then become investments of the insurance or annuity funds. On policies issued prior to 1968, a maximum rate of 6% can be charged on such policy loans. On policies issued subsequent to this date, no interest rate limits are established on policy loans. London Life has an established policy for setting policy loan interest rates which is reflective of the current bank prime rate and our current earnings rates. The average interest rate on all policy loans outstanding at December 31, 1996 was 7.6% and 8.7% at December 31, 1995.

The following table sets out details of policy loans outstanding at December 31, 1996:

Policy loans outstanding

December 31, 1996 (millions of dollars)	Loanable Value		Loans Outstanding		Percentage Loaned
At rate of 4% – 6%	$ 1,165	19%	$ 256	27%	22%
No maximum specified	4,939	81	677	73	14
Total	$ 6,104	100%	$ 933	100%	15%

The effect of policyowner loans on shareholders' net income is not material, as most of the policy loans are on participating policies.

Insurance Legislation Developments

London Life and the insurance subsidiaries of London General Insurance Group Inc. are governed at the corporate level by the federal Insurance Companies Act (with the exception of Coronation Insurance Company Limited, a comparatively small provincial company governed under Ontario's Corporations Act). The companies are supervised by the Office of the Superintendent of Financial Institutions, Canada. The companies are also subject to regulation and supervision by the provinces of Canada and other jurisdictions in which they conduct business.

Federal Legislation

The Insurance Companies Act specifies the powers of a company governed under the statute and imposes investment restrictions. Most significantly, the statute provides for annual and other reports to be filed on the financial condition of the company; periodic examinations of the company's affairs; restrictions on transactions with related parties; requirements governing reserves for actuarial liabilities and other matters; the nature, limitations and valuation of investments; the safekeeping of assets generally; and standards of solvency to be met and maintained.

The ICA provides, as far as federal law is concerned, that the underwriting of insurance and distribution of most insurance policies are to be conducted exclusively by insurance companies and/or brokers, though regulations do allow deposit taking institutions to market a limited range of insurance products through their branches.

London Insurance Group and its affiliated insurers, including London Life, will continue to work with all governments in Canada to ensure that the public policy commitment to restrict the insurance activities of deposit taking institutions is maintained, and that the interests of Canadian consumers are protected by ensuring that insurance continues to be sold primarily by qualified, licensed insurance agents and brokers who work independently of deposit taking institutions. In the June 19, 1996 federal government White Paper, "1997 Review of Financial Sector Legislation: Proposals for Changes", the government remains committed to not further extending the powers of deposit taking institutions where the retailing and marketing of insurance products are concerned.

On April 1, 1997, the four principal acts governing federally regulated financial institutions – the *Insurance Companies Act*, the *Trust Companies Act*, the *Bank Act* and the *Cooperative Credit Associations Act* – will effectively expire, pursuant to a "sunset" provision common to all four acts. The four acts, originally coming into force in 1992 (after extensive revision of their predecessor legislation) must by then be reinstated by Parliament, with any approved amendments.

On May 16, 1996, Bill C-15, *An Act to amend, enact and repeal certain laws relating to financial institutions*, became law. This legislation charged OSFI with such specific responsibilities as determining whether financial institutions are in compliance with their governing statute law and regulations. In any particular case where OSFI finds non compliance, it will be able to take, or require management or the board to take, necessary corrective measures to address the non compliance. Additional powers have been given to the Superintendent in the event the Superintendent takes control of a company in financial difficulty. Overall, London Insurance Group welcomes these changes as further ensuring the soundness of Canada's financial institutions.

Credit Unions and Caisses Populaires Act, 1994 (Ontario)

On June 23, 1994, the *Credit Unions and Caisses Populaires Act*, 1994 (the Act) received royal assent. Introduced in the Legislative Assembly on December 9, 1993 as Bill 134, the Act was first known as the Financial Services Statute Law Amendment Act. The Act has repealed the former Credit Unions and Caisses Populaires Act and has made significant changes to the Insurance Act of Ontario.

In early 1995, Part XIX of the Act came into force. Part XIX amended significantly Ontario's Insurance Act, providing the legislative framework for life agent reform. The amendments include the granting of authority to the government to regulate relations between agents and insurers, and also the relations they have with their customers.

Unfortunately, the insurance council, to be instituted pursuant to Part XIX, has still not been established. The delay has been accounted for, in part, by ongoing government-industry discussions as to the composition of the council and its financing. When the council is eventually established, it will be an organization subject to the discretion of the Commissioner of insurance, and will be composed of industry and consumer representatives. The council will regulate the operation and the standards, practice and business conduct of life agents with a view to promoting the protection of purchasers of life insurance and the public interest generally.

The delay in establishing the council has postponed the development of a Code of Ethics for agents. In view of the less detailed disclosures which must be made by an agent replacing insurance coverage, the ongoing absence of a Code is particularly regrettable. London Insurance Group continues to press for the establishment of the insurance council and for the adoption of a comprehensive Code of Ethics safeguarding consumers and their families.

Overall, the changes brought about by the Act will be positive, both for the industry and for London Insurance Group and its constituent companies. Much will depend, however, on regulations which are still awaited. London Insurance Group is supportive of the public policy direction taken under the Act and will continue to lend its support to the development of effective and prudent regulation.

Proposed "Financial Institutions Commission" (Ontario)

On April 11, 1996 the Ontario government proposed the amalgamation of the Ontario Insurance Commission, the Pension Commission and the Deposit Institutions Division to form one regulatory body, the Ontario Financial Institutions Commission. This proposal was reiterated in the subsequent provincial budget.

London Insurance Group welcomes any initiative which is intended to save administrative costs and reduce regulatory overlap. However, care must be taken to ensure that in implementing the proposed amalgamation such cost savings are actually realized. Moreover, there must be assurance that key stakeholders will be consulted and that the regulatory body which emerges will be capable of supporting a level playing field in the financial services sector.

Universal prescription drug plan (Quebec)

On June 19, 1996, Quebec Bill 33 (*An Act respecting prescription drug insurance*) became law. Under this legislation, all residents of Quebec will be covered for the cost of most prescription drugs (subject to certain deductible and coinsurance limits). With limited exception, all group health insurance plans, as of January 1, 1997 will be required to provide, at minimum, a basic prescription drug plan determined by the province. Also, with limited exception, coverage at least equal to the basic plan must be extended to all active employees, regardless of age or health. Those not covered by group insurance will be afforded coverage by the Quebec government.

The legislation is complex and, in the scope of its mandated changes to coverage provided under private health plans, unprecedented in Canada. Regulations are still awaited. In the interim, the Régie de l'assurance-maladie du Québec (RAMQ) has been issuing interpretation bulletins and offering insight into the direction regulations are expected to take. Until the legislation is better understood, and until regulations have been promulgated and the pooling arrangements called for under Bill 33 established (whereby companies are to spread the costs associated with the taking on of poorer insurance risks), it is difficult to assess the business impact of Bill 33.

Corporate Governance

The Board of Directors of London Insurance Group has established a Business Conduct Review Committee (BCRC) comprised of directors who are not affiliated with the Company. The BCRC is responsible for reviewing all proposed and permitted material transactions with related parties of the Company and oversees business ethics applicable to employees, directors and shareholders. The Committee also has responsibility for approving or recommending the approval of all significant transactions of London Insurance Group and its subsidiaries which may involve a material conflict of interest (as determined by the Committee using its established guidelines). London Life has also established its own BCRC.

London Insurance Group's Investment Committee has established investment policy guidelines and delegated authority limits within which investment operations are conducted. The investment policy guidelines specify the investment restrictions under the Insurance Companies Act, the asset quality criteria, liquidity criteria, size limits and diversification requirements for investments. The new ICA provides a broad range of permissible investments, subject to the prudent portfolio principles also applicable to other financial institutions.

A comparison of London Insurance Group's corporate governance practices to the guidelines established by the Toronto Stock Exchange as a listing requirement can be found in the Corporation's Management Information Circular, dated February 28, 1997, available from the Corporate Secretary on request.

Management's Discussion and Analysis

Management's Discussion and Analysis is included on pages 15 to 34 of the 1996 London Insurance Group Annual Report and is incorporated by reference into this Annual Information Form.

Selected Consolidated Financial Information

Five year results

December 31 (millions of dollars except per share amounts)	**1996**	1995	1994	1993	1992
Total revenue	**$ 5,674**	$ 5,145	$ 4,540	$ 4,108	$ 3,633
Net income	**150**	138	121	132	126
Total return to policyowners	**512**	340	337	327	285
Net income to common shareholders	**125**	111	102	113	111
Shareholders' equity	**$ 1,508**	$ 1,497	$ 1,402	$ 1,393	$ 1,341
Return on common equity	**11.7%**	10.4%	10.0%	11.4%	11.9%
Net income per common share[1]					
Basic	**$ 1.55**	$ 1.39	$ 1.25	$ 1.35	$ 1.33
Fully diluted	**1.49**	1.31	1.19	1.29	1.30
Total assets	**24,811**	18,937	17,687	16,466	15,596
Total assets under administration	**32,880**	25,437	24,010	22,133	19,608
Long term debt	**459**	309	232	180	150
Senior notes and debentures	**305**	305	100	100	100
Preferred shares	**400**	400	375	375	375
Dividends per common share[2]	**0.67**	0.67	0.65	0.65	0.63
Dividends per preferred share – Class 1					
Series A	**1.1252**	1.5111	1.1491	1.0887	1.3249
Series B	**1.1251**	1.5108	1.1511	1.0860	1.3214
Series C	**–**	33,443.97	37,250.77	36,754.11	48,774.40
Series D	**1.8125**	1.8125	$ 1.8125	$ 1.8125	$ 0.3476
Series E	**$ 1.8000**	$ 1.0467	n/a	n/a	n/a
Employees and sales representatives	**11,327**	9,155	6,387	6,307	6,846

[1] Earnings per share have been restated to reflect the effects of the stock dividend distribution in December 1996.
[2] In February 1997, the Company's Board of Directors announced that the annual dividend would be $0.76 per common share.

Quarterly results

(millions of dollars except per share amounts)	Total Revenue	Net Income	Basic Net Income Per Common Share
1996			
4th Quarter	**$ 1,719**	**$ 36**	**$ 0.37**
3rd Quarter	**1,410**	**40**	**0.42**
2nd Quarter	**1,283**	**40**	**0.42**
1st Quarter	**1,262**	**34**	**0.34**
1995			
4th Quarter	1,637	28	0.27
3rd Quarter	1,169	37	0.38
2nd Quarter	1,164	41	0.42
1st Quarter	$ 1,175	$ 32	$ 0.32

Dividend policy

London Insurance Group is committed to paying dividends to its common shareholders on a stable and consistent basis.

The current objective is to set the dividend rate at approximately 40% to 50% of the projected earnings for the year. The policy ensures that approximately 50% to 60% of earnings are retained as capital to fund growth in existing and new businesses. It also provides capital to cushion operations from the impact of unexpected fluctuations in business or investment performance. In February 1997, the Company's Board of Directors announced that the annual dividend would be $0.76 per common share.

Other Information

Market for securities

The Common, Preferred Class I Shares Series A, Preferred Class I Shares Series D, and Preferred Class I Shares Series E of London Insurance Group are listed and posted for trading on The Toronto Stock Exchange, the Montreal Exchange and the Vancouver Stock Exchange. Common shares are listed as LON, the Series A preferred shares are listed as LON.PR.A., the Series D preferred shares are listed as LON.PR.D, and the Series E preferred shares are listing as LON.PR.E.

The U.S. 6⅞% Senior Notes of London Insurance Group issued in 1995 are listed and posted for trading on the New York Stock Exchange as LIGI.05.

Research and development

London Insurance Group is a financial services organization and as such does not spend funds on pure research. From time to time, significant spending on the part of systems and technology development has been and is undertaken. As part of its business planning and its product design and pricing processes, market and industry research, as well as mortality, morbidity and other cost factor studies are undertaken, but the spending is not considered to be material.

Environmental protection

All London Insurance Group companies are committed to internal recycling and conservation programs in the communities in which they do business. As a financial services organization, our business does not have a major environmental impact. Accordingly no significant capital spending is required for environmental protection and the impact on earnings is also immaterial.

Additional information

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of London Insurance Group securities and options to purchase securities, is contained in the Corporation's Management Information Circular dated February 28, 1997, a copy of which can be obtained from the Corporate Secretary upon request.

Board of Directors

Micheline Bouchard, O.C., P.Eng. *5*
St. Bruno, Quebec
Vice-President, Quebec Operations, Hewlett-Packard (Canada) Ltd. since January 1996. 1988 – 1996: Vice-President Marketing, DMR Group Inc. Elected to the Board in 1992.

Jack L. Cockwell *1,4,5*
Toronto, Ontario
President and Chief Executive Officer, Brascan Limited since 1991. Member of the Board since 1990.

William A. Dimma, C.M. *5*
Toronto, Ontario
Chairman, Monsanto Canada Inc. since 1994. 1986 – 1993: Deputy Chairman, Royal LePage Limited. A director since 1990.

Senator J. Trevor Eyton, O.C. *5*
Toronto, Ontario
Chairman of Brascan Limited since 1991. Elected as a director in 1990.

Kenneth W. Harrigan, O.C. *1,2,4*
Oakville, Ontario
Company director. 1990 – 1992: Chairman and Chief Executive Officer, Ford Motor Company of Canada Ltd. Elected to the Board in 1990.

***Melvin M. Hawkrigg** *1,4*
Waterdown, Ontario
Chairman of London Insurance Group and London Life since 1994. Prior to 1994: Chairman, Trilon Financial Corporation. Joined the Board in 1982.

Robert Johnstone *3,4*
Toronto, Ontario
Company director and consultant since 1992. Elected to the Board in 1990.

Patrick J. Keenan *1,4*
Toronto, Ontario
Chairman and Chief Executive Officer, Keewhit Investments Limited since 1975. Elected to the Board in 1990.

Paul X. Kelley *2*
Washington D.C., U.S.A.
Vice-Chairman, Cassidy & Associates since 1988. Elected to the Board in 1995.

Allen T. Lambert, O.C. *4*
Toronto, Ontario
Group Chairman, Financial Services, of The Edper Group Limited since 1988 and a former Chairman of London Life. A director since 1977.

***Hartland M. MacDougall, C.V.O., O.C.** *3,4*
Belfountain, Ontario
Deputy Chairman of London Insurance Group and London Life since 1993. Prior to 1993: Chairman, Royal Trustco Limited. A director since 1985.

Harold P. Milavsky, F.C.A. *2*
Calgary, Alberta
Chairman, Quantico Capital Corp since 1994. 1993 – 1994: Chairman of Executive Committee, Trizec Corporation Ltd. 1986 – 1993: Chairman, Trizec Corporation Ltd. A director since 1990.

George E. Myhal *1,2,4*
Toronto, Ontario
Deputy Chairman of London Insurance Group since 1996. President and Chief Executive Officer, Trilon Financial Corporation since 1992. Elected to the Board in 1994.

***Earl H. Orser** *4*
London, Ontario
Honorary Chairman of London Life, former Chairman of London Life and London Insurance Group. 1989 – 1994. Chairman, Spar Aerospace Limited since 1993. Elected as a director in 1985.

Timothy R. Price *2*
Toronto, Ontario
Managing Partner and Chairman, The Edper Group Limited since 1997. 1992 – 1996: Chairman of Hees International Bancorp Ltd. Elected to the Board in 1996.

L. Robert Shaw *2,5*
Halifax, Nova Scotia
Vice-President, Customer Service and Marketing, Nova Scotia Power Inc. since 1993. 1992 – 1993: Managing Partner, Atlantic Region, Peat Marwick Stevenson & Kellogg. Elected to the Board in 1990.

Barry C. Steers *3,5*
London, Ontario
Past Canadian Ambassador to Japan (1982 – 1989). Member of the Board since 1990.

***Fredric J. Tomczyk** *1,4*
London, Ontario
President and Chief Executive Officer of London Life and London Insurance Group, December 1996. 1982 – 1996: Various senior management positions in London Life. Appointed to the Board December 1996.

Douglas T. Wright, O.C. *3,5*
Waterloo, Ontario
Past President, the University of Waterloo. Prior to 1993: President, University of Waterloo. Elected to the Board in 1990.

1 New Initiatives Committee
2 Audit Committee
3 Business Conduct Review Committee
4 Investment Committee
5 Governance & Human Resources Committee

**Also officers of London Life.*

All Directors are elected to hold office until the close of the next Annual Meeting of Shareholders.

Officers

Douglas S. Alexander
London, Ontario
Executive Vice-President and Chief Financial Officer since 1994: 1989 – 1994, Senior Vice-President and Chief Financial Officer, London Insurance Group Inc.; Senior Vice-President, Finance since July 1991, and Senior Vice-President, Financial Planning December 1990 – July 1991 of London Life Insurance Company.

R. Thomas M. Allan
London, Ontario
Executive Vice-President, Investments – London Insurance Group Inc. since 1989.

Catherine (Kelly) Butt
London, Ontario
Vice-President, Information Services – London Insurance Group Inc. since April 1990, Senior Vice-President – Information Services of London Life Insurance Company.

Norton C. Campbell
London, Ontario
Vice-President, Human Resources – London Insurance Group Inc. since April 1990; Senior Vice-President – Leadership Development and Corporate Services since February 1997, and Senior Vice-President – Human Resources of London Life Insurance Company 1989 – 1997.

James E. Henkel
London, Ontario
Corporate Secretary since December 1991, Assistant Secretary April 1991 – December 1991 of London Insurance Group Inc. and London Life Insurance Company; 1990 – 1991 Director and Comptroller, Investments, London Life Insurance Company.

William C. Nursey
London, Ontario
Vice-President and General Counsel since December 1991 and Vice-President and Secretary 1989 – 1991 of London Insurance Group Inc.; Senior Vice-President and General Counsel since December 1991, and Senior Vice-President, General Counsel and Secretary April 1988 – 1991 of London Life Insurance Company.

George B. Soteroff
London, Ontario
Vice-President, Communications & Corporate Affairs since October 1993 of London Insurance Group Inc.; Senior Vice-President, Communications and Corporate Affairs since October 1993 of London Life Insurance Company; 1991 – 1993, Vice-President, Asian Initiatives of London Life Insurance Company.

The Directors and Officers of London Insurance Group Inc., as a group, own or control approximately 0.3% of the outstanding voting securities of London Insurance Group.

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