be a gain from excess interest of 1½% on the invested funds. This is the second source of surplus.

3. SURPLUS FROM FAVOURABLE MORTALITY—In computing premiums and reserves, a rate of mortality based upon a standard Mortality Table is assumed. It is customary for life assurance companies to compare their *actual* mortality experienced from year to year with *the expected mortality,* according to the standard table. The actual mortality will never be exactly the same as that exhibited by the standard table—there will always be some difference between the *actual* and *expected mortality.* If the former is less than the latter, then there will be a surplus arising from favourable mortality.

4. GAIN ON INVESTMENTS—A company frequently realizes a profit on its investments, through disposing of securities at a price higher than that paid for them. This is another important source of surplus.

5. LAPSED POLICIES—When a policyholder drops his policy within the first few years, he is not entitled to any surrender value, and any value that the policy may possess is added to the general surplus of the company. As a matter of fact, however, this source of surplus is not nearly so important as is often believed (especially by people outside the insurance business), because, on account of the large initial expense connected with a policy, the company never makes much money on a lapsed policy and more frequently loses money.

6. SURRENDERED POLICIES—When a policyholder terminates his contract with the company by surrendering his policy, he very seldom receives the full reserve value, unless the policy has been running for some considerable time. A deduction is generally made from the reserve as a penalty and for the protection of the company from a too-general exercise of this