

Annual Report

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**Assumption Life**  
*Investing in Your Future.*

## Board of Directors

**Louis R. Comeau\***  
Chairman of the Board  
Assumption Life

**Denis Losier**  
President and CEO  
Assumption Life

**Paul L. Bourque\*, CA**  
President  
Paul L. Bourque and Company

**Jean Collin\*, CGA**  
President and CEO  
Bégin Lumber Ltd.

**Noël M. Després**  
General Manager  
Comeau's Sea Foods Ltd.

**Roger Fournier**  
President  
Triangle Kitchen Ltd.

**Jeannette Lalonde-Bard**  
Le Groupe Lalonde-Bard

**Fernand Landry**  
Director general  
Sommet de la Francophonie 1999

**Denis Mallet\*,**  
General Manager  
Fafard Peat Moss

**J. Bernard Marcil\*, FCA**  
Vice Chairman of the Board  
Assumption Life

**Jean-Jacques Roy, Eng.**  
Groupe Roy Consultants

\* Member of the Audit Committee





## Message from the President and Chief Executive Officer

At a time of uncertainty regarding issues such as the health of the international, national and provincial economies, Assumption Life is an exception. The results from our last fiscal year are more than positive. Once more, I have the honour of informing you that we have reached all the objectives we had set for ourselves at the beginning of the year. ■ In all areas, we have forged ahead so that our company will be able to face with confidence and determination the rules for competing in the twenty-first century. ■ By reviewing the major highlights of 1998, you will understand that our financial performance has been remarkable. ■ The Company generated a net income for 1998 of \$2.7 million. That brings our total net income over five years to \$13 million. Policyholders' equity has reached \$34.1 million. In five years, that surplus has grown by 57.8%. Assumption Life's assets under management total \$598 million, a 30% increase since 1994. ■ Louisbourg Investments Inc. has continued to grow exponentially with an increase in revenue of 20.9% and an increase in net profit of 30.9%. It ended 1998 with \$914 million in assets under management, a 16.9% increase. ■ Such results come from products that meet the ever-increasing needs of clients. ■ Conscious of and attentive to our clients' needs, we have developed products whose quality is undeniable: flexibility, reduced proof of insurability, innovation with products offering a combination of protection and fund accumulation. ■ Customer service is not only a major concern for our employees, it is also an instinctive reflex. The notion of good service is everyone's responsibility -- regardless of our position within the Company. ■ This success, we owe it to those who believe in Assumption Life and who give their talent to make it grow. I am extremely proud to be working with people for whom our company represents sincere commitment and solidarity. I would like to thank our employees, our representatives and Assumption Life's management team. These people are the ones who make it possible for us to reach new heights. To the Board of Directors, I want to express my gratitude for their consideration and their trust.

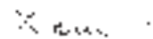


**Denis Losier**  
*President and CEO*



## Message from the Chairman of the Board

As the numbers unveiled in this report clearly demonstrate, in 1998, Assumption Life enjoyed continued growth and expansion. The members of the Board of Directors are proud to be able to participate in this important work, which is aimed at propelling the Company towards new heights. ■ Our representatives now have at their disposal a wide array of products that are capable of meeting all of our clients' needs. Our next objective will be to expand the Company's horizons and to reaffirm its presence in all markets within the Atlantic Provinces. ■ The Company's development has been constant over the last five years. During that time, the Board has reexamined its role and now participates much more actively in the development of the Company's general orientations in the best interests of its clients. ■ I would like to thank all of those who participate in this grand endeavour. May 1999 be another success-filled year for us all!



**Louis R. Comeau**  
*Chairman of the Board*

## Valuation Actuary's Report to Policyholders

I have valued the policy liabilities of Assumption Mutual Life Insurance Company for its consolidated balance sheet at December 31, 1998, and their change in the consolidated statement of income for the year then ended in accordance with accepted actuarial practices, including the selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the consolidated financial statements fairly present the results of the valuation.

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**Michel Giguère**

*Fellow, Canadian Institute of Actuaries*

*Ernst & Young*

*February 18, 1999*

## Statement of Management's Responsibility

The financial statements of Assumption Mutual Life Insurance Company and all the financial information in this annual report are the responsibility of Management and have been approved by the Board of Directors.

The financial statements, prepared by Management in accordance with generally accepted accounting principles, include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

Management is of the opinion that internal control mechanisms are adequate to ensure a reasonable degree of reliability pertaining to financial reporting and that the financial statements contained herein present fairly the results of operations of the Company for the year ended December 31, 1998.

Assumption Life's actuarial liabilities have been reviewed and reported upon by a valuation actuary whose report is included in this report. Management has provided the valuation actuary with the information necessary for the completion of his report and retains ultimate responsibility for the determination and estimation of the policy liabilities.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and all of its members are outside directors. The Committee meets periodically with Management, as well as with the internal and external auditors, to discuss internal controls over auditing matters and financial reporting issues. The Committee reviews the annual report, the financial statements and the external auditors' report and reports its findings to the Board for consideration when approving the financial statements for issuance to the policyholders. The Committee also considers, for review by the Board and approval by the policyholders, the appointment of the external auditors.

The financial statements have been audited by LeBlanc Nadeau Bujold, the external auditors, in accordance with generally accepted auditing standards on behalf of the policyholders. LeBlanc Nadeau Bujold has full access to the Audit Committee.

For Management,



**Denis Losier**

*President and Chief Executive Officer*

*February 18, 1999*

## Auditors' Report to Policyholders

We have audited the consolidated balance sheet of Assumption Mutual Life Insurance Company as at December 31, 1998, and the consolidated statements of income, surplus and changes in financial position, as well as the consolidated statements of segregated funds for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

*Leblanc Nadon Bujold*

Chartered Accountants

Moncton, Canada

February 18, 1999

## Consolidated Statement of Income

(in thousands of dollars)

		Year ended December 31	
	Note	1998	1997
<b>Revenue</b>			
Insurance premiums		\$ 31,309	\$ 30,291
Annuity premiums		10,745	22,101
Investment income	12	27,635	27,977
Other		2,634	719
		<u>72,323</u>	<u>81,088</u>
<b>Expenses</b>			
Insurance benefits		19,383	18,059
Annuity benefits		34,769	43,474
Decrease in actuarial liabilities		(4,918)	(3,431)
Other policyholders' benefits		1,968	2,532
Administration		10,502	9,362
Commissions		4,390	4,139
Interest on long-term debt		899	1,242
Other		961	845
		<u>67,954</u>	<u>76,222</u>
<b>Operating Income Before Dividends and Taxes</b>			
		4,369	4,866
Dividends		<u>727</u>	<u>714</u>
<b>Income Before Taxes</b>			
		3,642	4,152
Taxes		<u>944</u>	<u>1,865</u>
<b>Net Income for the Year</b>			
		<u>\$ 2,698</u>	<u>\$ 2,287</u>

## Consolidated Statement of Surplus

(in thousands of dollars)

	Year ended December 31	
	1998	1997
<b>Balance - Beginning of Year</b>	\$ 31,431	\$ 29,144
Net income for the year	<u>2,698</u>	<u>2,287</u>
<b>Balance - End of Year</b>	<u>\$ 34,129</u>	<u>\$ 31,431</u>


## Consolidated Balance Sheet

(in thousands of dollars)

		As at December 31	
Notes		1998	1997
<b>Assets</b>			
Marketable securities	3	\$ 225,912	\$ 225,124
Mortgages	4	117,259	109,205
Real estate	3	25,630	26,369
Loans to policyholders		6,175	5,775
Cash and term deposits		1,194	5,618
Accrued investment income		4,393	4,485
Capital assets	5	3,021	3,082
Other assets	6	11,341	8,379
		<u>\$ 394,925</u>	<u>\$ 388,037</u>
<b>Liabilities</b>			
Policy liabilities:			
Actuarial liabilities	7	\$ 313,033	\$ 312,873
Benefits payable & other provisions		3,860	4,625
Insureds' deposits		19,861	16,108
Long-term debt	8	10,964	11,652
Deferred realized gains and losses	9	6,363	4,696
Other liabilities	10	6,715	6,652
		360,796	356,606
<b>Policyholders' Equity</b>			
Surplus		34,129	31,431
		<u>\$ 394,925</u>	<u>\$ 388,037</u>
<b>Assets Under Management</b>			
		<u>\$ 203,131</u>	<u>\$ 167,583</u>
Uncertainties	17		

Signed on behalf of the Board

  
Chairman

  
President and CEO

## Consolidated Statement of Changes in Financial Position

(in thousands of dollars)

		Year ended December 31	
Note		1998	1997
<b>Operations</b>			
	Net income for the year	\$ 2,698	\$ 2,287
	Items not affecting cash:		
	Decrease in actuarial liabilities	(4,918)	(3,431)
	Amortization of capital assets and goodwill	1,028	1,068
	Investment income	12 620	593
	Other	(2,896)	(217)
		(3,468)	300
	Change in non-cash working capital items related to operations	(1,990)	1,032
		(5,458)	1,332
<b>Financing</b>			
	Increase in long-term debt	—	6,500
	Reimbursement of long-term debt	(688)	(4,610)
		(688)	1,890
<b>Investment</b>			
	Marketable securities, mortgages and real estate:		
	Sales and maturities	53,394	78,943
	Purchases and loans	(53,489)	(82,013)
	Acquisition of capital assets	(1,027)	(816)
	Other	2,844	1,414
		1,722	(2,472)
	<b>Increase (decrease) in cash and term deposits during the year</b>	(4,424)	750
	<b>Cash and term deposits - Beginning of year</b>	5,618	4,868
	<b>Cash and term deposits - End of year</b>	<u>\$ 1,194</u>	<u>\$ 5,618</u>

## Consolidated Statements of Segregated Funds

(in thousands of dollars)

		As at December 31	
		1998	1997
<b>Net Assets</b>			
Investments:			
	Bonds	\$ 73,408	\$ 66,543
	Stocks	68,229	52,230
	Mutual funds	55,655	37,592
	Mortgages	794	—
	Cash and term deposits	4,343	10,266
	Accrued investment income	906	1,060
		203,335	167,691
	Liabilities	204	108
	<b>PARTICIPANTS' EQUITY</b>	<u>\$ 203,131</u>	<u>\$ 167,583</u>
<b>Change in Net Assets</b>			
NET ASSETS - BEGINNING OF YEAR			
		\$ 167,583	\$ 130,318
Net contributions:			
	Contributions	27,139	25,046
	Withdrawals	(7,156)	(7,111)
		19,983	17,935
Investment income:			
	Change in value of investments	10,144	12,765
	Interest and dividends	6,710	6,036
	Realized gains and losses	(31)	1,258
		16,823	20,059
	Management and administrative fees	(1,258)	(729)
	<b>NET ASSETS - END OF YEAR</b>	<u>\$ 203,131</u>	<u>\$ 167,583</u>

# Notes to Consolidated Financial Statements

(tabular amounts in thousands)

Year ended December 31, 1998

## 1. Incorporation

Assumption Mutual Life Insurance Company, known as Assumption Life, was incorporated under a private law of the Province of New Brunswick's Legislative Assembly.

## 2. Significant Accounting Policies

These financial statements have been prepared in accordance with the Insurance Act of the Province of New Brunswick and the Company's incorporating act. This act states that, except as otherwise specified by the Superintendent of Insurance of New Brunswick, the financial statements are to be prepared in accordance with generally accepted accounting principles. The significant accounting policies used in the preparation of these financial statements, including the accounting requirements of the Superintendent of Insurance of New Brunswick, are described below. These accounting policies conform, in all material respects, to generally accepted accounting principles.

### Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries:

**Assumption Place Limited;** and  
**Atlantic Holdings (1987) Limited,**  
**the parent company of Louisbourg Investments Inc.**

These statements do not include the accounts of Assumption Mutual Life Foundation Inc.

### Marketable Securities

Marketable securities include bonds, mortgage pools and stocks. Bonds and mortgage pools are recorded at amortized cost, and gains and losses realized on the sale of these securities are deferred and amortized over the remaining term of the securities sold. Stocks are carried at moving average market value whereby the carrying value is adjusted according to the difference between carrying value and market value at a rate of 15% per annum. Realized gains and losses on the sale of stocks are deferred and amortized at a rate of 15% per annum on the declining balance method. When a decline in market value of a marketable security is considered other than temporary, the write-down is immediately charged to income.

### Mortgages

Mortgages are carried at the balance receivable, net of provisions for contingent losses. Provisions for losses on loans in arrears and in the process of being liquidated are immediately charged to income. They are measured by discounting the expected future cash flows using current rates of interest.

### Impaired Portfolio Investments

Management follows a policy of classifying its fixed term investment portfolio, consisting of bonds, mortgage pools and mortgages, as nonaccrual when, in its opinion, there is reasonable doubt as to the ultimate collectibility of a portion of principal or interest. Impaired investments are restored to an accrual basis only when principal and interest payments are current and there is no longer any reasonable doubt regarding collectibility.

### Real Estate

Real estate includes own-use properties and is carried at moving average market value whereby the carrying value is adjusted towards market value at 10% per annum. Realized gains and losses on the sale of investments are deferred and amortized at a rate of 10% per annum on the declining balance method. Market values of each property are established at least every three years by a qualified appraiser. The market value established is an estimate of the net realizable value of each property and thus recognizes any element of amortization. No provision for amortization is therefore recorded in income.

If the market value of the real estate portfolio is below the carrying value for a period of three consecutive years, the Company presumes that the decline in value is other than temporary. This presumption can only be rebutted by persuasive evidence to the contrary. When a decline in market value of the real estate portfolio is considered other than temporary, the write-down is immediately charged to income.

### Cash and Term Deposits

Cash and term deposits include deposits in bank and short-term notes with a maturity of three months or less from the date of acquisition.

### Capital Assets

Capital assets are recorded at cost and amortized on their useful lives on the straight-line method over periods of three to ten years.

## Goodwill

Goodwill, arising from an acquisition, is recorded at cost and amortized on the straight-line method over a period of twelve years, ending in 2002.

## Actuarial Liabilities

Actuarial liabilities regarding insurance and annuity contracts are established in accordance with the policy premium method. They represent the amount required to satisfy the payment of the Company's future commitments towards policyholders. The valuation actuary of these liabilities computes this amount in accordance with the assumptions that he considers appropriate for the policies in force.

## Pension Cost and Obligations

The Company and its subsidiaries offer to their employees and agents defined benefit pension plans based on final earnings. Employer and employee contributions to these plans are included in the assets of the Company, either in the assets of the consolidated balance sheet or in the net assets of consolidated statements of segregated funds for the benefit of participants. The annual pension cost includes actuarial expenses for current services, the amortization of actuarial adjustments for past services and the amortization of actuarial gains and losses.

## Taxes

Taxes are provided for on the taxes payable basis and include income taxes, large corporation tax and tax on investment income.

## Foreign Currency Translation

Monetary assets and liabilities in foreign currencies are converted at the rate of exchange in effect at the balance sheet date. Nonmonetary assets and liabilities are converted at the historical rate and revenue and expenses at the average rate for the year.

Translation gains and losses are charged to income for the year except if they relate to marketable securities, mortgages, loans to policyholders, actuarial liabilities and insureds' deposits in which case they are deferred and amortized over the predetermined or foreseeable life of each of the corresponding items.

## Actual and Future Costs in Connection with the Operations of the Canadian Life and Health Insurance Compensation Corporation

As a member of the Canadian Life and Health Insurance Compensation Corporation (CompCorp), the Company incurs and will likely incur in the future, certain costs in connection with the operations of CompCorp. CompCorp is responsible for compensating policyholders in the event that a life insurer's operations must be liquidated.

CompCorp annually assesses life insurers on the basis of a five-year average of annual premiums and the assessments are charged to income in the year they are incurred. The Company has agreed to provide CompCorp with a credit facility which can be drawn upon, at CompCorp's option, should the need arise.

## Segregated Funds

Investments of the segregated funds are recorded at market value. Realized and unrealized gains and losses are immediately included in investment income.

## 3. Marketable Securities and Real Estate

	1998	
	Carrying Value	Market Value
Marketable securities:		
Bonds	\$ 218,262	\$ 266,210
Mortgage pools	3,117	3,135
Investment funds	734	856
Others	3,799	3,905
	<u>225,912</u>	<u>274,106</u>
Real estate	<u>25,630</u>	<u>26,105</u>
	<u>\$ 251,542</u>	<u>\$ 300,211</u>
	1997	
	Carrying Value	Market Value
Marketable securities:		
Bonds	\$ 213,883	\$ 251,425
Mortgage pools	9,291	9,121
Investment funds	510	620
Others	1,440	1,507
	<u>225,124</u>	<u>262,673</u>
Real estate	<u>26,369</u>	<u>22,200</u>
	<u>\$ 251,493</u>	<u>\$ 284,873</u>

Ninety-six percent (96%) of the bond portfolio is comprised of bonds with an A rating or better. Government bonds represent 71% of the bond portfolio.

#### 4. Mortgage Loans

	<b>1 9 9 8</b>		
	<b>Recorded Investment</b>	<b>Allowance for Impairment</b>	<b>Carrying Value</b>
Mortgages:			
Non impaired			
Residential	\$ 84,616	\$ —	\$ 84,616
Commercial	31,187	—	31,187
Impaired			
Residential	744	198	546
Commercial	1,051	141	910
	<u>\$ 117,598</u>	<u>\$ 339</u>	<u>\$ 117,259</u>

	<b>1 9 9 7</b>
	<b>Carrying Value</b>
Mortgages:	
Non impaired	
Residential	\$ 78,348
Commercial	29,721
Impaired	
Residential	185
Commercial	951
	<u>\$ 109,205</u>

Investment income includes a charge for loan impairment in the amount of \$92,000 (\$113,000 - 1997). In addition, a charge of \$154,000 (\$219,000 - 1997), relating to foreclosed properties, has been recognized to reflect a permanent decrease in market value.

Thirty-six percent (36%) of the mortgage loan portfolio is insured while 0.6% of the portfolio is in arrears.

#### 5. Capital Assets

	<b>1 9 9 8</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Furniture and equipment	\$ 3,528	\$ 2,637	\$ 891
Software	3,293	1,689	1,604
Leasehold improvements	<u>1,006</u>	<u>480</u>	<u>526</u>
	<u>\$ 7,827</u>	<u>\$ 4,806</u>	<u>\$ 3,021</u>

	<b>1 9 9 7</b>
	<b>Net</b>
Furniture and equipment	\$ 943
Software	1,590
Leasehold improvements	<u>549</u>
	<u>\$ 3,082</u>

Administration expenses include the amortization of capital assets amounting to \$943,000 (\$983,000 - 1997).

#### 6. Other Assets

	<b>1998</b>	<b>1997</b>
Accounts receivable:		
Clients	\$ 2,968	\$ 2,439
Reinsurers	3,854	1,784
Premiums receivable	1,968	1,756
Commissions and prepaid expenses	1,215	992
Goodwill	338	420
Other	<u>998</u>	<u>988</u>
	<u>\$ 11,341</u>	<u>\$ 8,379</u>

Administration expenses include the amortization of goodwill amounting to \$85,000 (\$85,000 - 1997).



## Assumptions

The valuation method implies the selection of assumptions based on the actuaries' best estimate in order to reflect the risks undertaken by the Company, namely: mortality, disability, investment returns, operating expenses and lapses. These assumptions must be modified by the introduction of margins for adverse deviations that result in an increase in the liabilities. The assumptions are revised annually to make sure they correctly reflect the Company's experience. Any change in the assumptions impacts the actuarial liabilities and is immediately recognized in income.

The following is a description of the methods used to calculate the assumptions and the margins for adverse deviation:

### a) Mortality

For individual life, the Company uses a recently published industry mortality table, modified to take into account the actual experience of the Company over the last three years. Future mortality improvements are not taken into account in the valuation.

For annuities, a recent industry mortality table is used taking into account expected future improvements in annuitant mortality.

### b) Disability

The Company uses disability tables representative of the industry experience, modified to reflect the Company's own experience.

### c) Investment Returns

The computation of actuarial liabilities takes into account projected net investment income on assets backing liabilities and on new cash flows to be invested or disinvested in the future. The uncertainty of the interest rates at which future cash flows can be reinvested have been taken into account by testing plausible future interest rate scenarios to determine the sensitiveness of the results. Investment expenses and asset default risks are also considered in the valuation.

### d) Expenses

The administrative expenses per policy are based on the Company's internal cost analysis which is updated annually. These unit costs are projected into the future factoring inflation.

### e) Lapses

Each year, an internal study of the Company's policy lapse rates is conducted. The valuation assumptions are chosen by considering both this internal study and the published industry experience.

### f) Policyholder Dividends

Actuarial liabilities include the present value of expected future policy dividends reflecting current dividend scales.

### g) Margins for Adverse Deviations

The basic assumptions made in establishing actuarial liabilities represent best estimates for a range of possible outcomes. To recognize the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the actuarial liabilities are adequate to pay future benefits, actuaries are required to include a margin for each assumption. A range of allowable margins is defined by the Canadian Institute of Actuaries and the actuary must choose the margins, within this range, with consideration for each company's specific situation.

In general, the margins are higher for fully guaranteed products while they are lower for adjustable products or participating policies where the dividends can be modified to reflect the Company's experience.

## Change in Actuarial Liabilities

The change in actuarial liabilities for the year is explained as follows:

	<u>1998</u>	<u>1997</u>
Actuarial liabilities at the beginning of the year	\$ 312,873	\$ 313,722
Normal decrease in liabilities	(5,305)	(2,693)
Changes resulting from revised actuarial assumptions	387	(738)
Currency revaluation	<u>5,078</u>	<u>2,582</u>
Actuarial liabilities at the end of the year	<u>\$ 313,033</u>	<u>\$ 312,873</u>

## Reinsurance

In order to stabilize the results of the Company, part of the business is ceded to registered reinsurers. For instance, the maximum amount that is retained by the Company on any one insured life is \$75,000. Reinsurance ceded does not discharge the Company of its liability towards its insureds. Therefore, failure of reinsurers to honour their obligations could result in losses for the Company. Each year, the Company ascertains that its reinsurers exceed the minimum capitalization required by the regulatory authorities.

According to the existing reinsurance agreements, the actuarial liabilities have been reduced by the following amounts:

	<u>1998</u>	<u>1997</u>
Canada	\$ 28,360	\$ 27,712
United States	<u>80</u>	<u>73</u>
	<u>\$ 28,440</u>	<u>\$ 27,785</u>

## 8. Long-Term Debt

	<u>1998</u>	<u>1997</u>
<b>Mortgage Loans</b>		
Mortgage loans at rates varying between 6.05% and 11.215%, maturing at various dates until 1999 and pledging real estate.	\$ 10,324	\$ 10,858
<b>Other Loans</b>		
Loans at prime rate minus 1% to prime plus 0.50% and maturing at various dates until 2001.	<u>640</u>	<u>794</u>
	<u>\$ 10,964</u>	<u>\$ 11,652</u>

Payments on principal required in each of the next five years to meet retirement provisions are as follows:

Years ending December 31, 1999	\$ 718
2000	769
2001	817
2002	794
2003	878

## 9. Deferred Realized Gains and Losses

The balance of deferred realized gains and losses resulting from the sale of investments is as follows:

	<u>1998</u>	<u>1997</u>
Bonds	\$ 3,455	\$ 2,844
Mortgage pools	(216)	(311)
Real estate	(346)	(384)
Other investments	65	48
Foreign exchange	<u>3,405</u>	<u>2,499</u>
	<u>\$ 6,363</u>	<u>\$ 4,696</u>

## 10. Other Liabilities

	<u>1998</u>	<u>1997</u>
Accounts payable:		
Suppliers	\$ 1,436	\$ 2,317
Reinsurers	1,187	995
Other	<u>4,092</u>	<u>3,340</u>
	<u>\$ 6,715</u>	<u>\$ 6,652</u>

## 11. Financial Stability of the Company

### Capital Adequacy

The regulatory authorities require life insurance companies in Canada to maintain a minimum capitalization ratio in order to carry on business activities.

The Company's ratio is approximately 189% of the requirement imposed by the Office of the Superintendent of Financial Institutions of Canada (OSFI). In other words, the Company has a capitalization of 1.89 times the minimum requirement. This level enables the Company to face unexpected negative results of approximately \$16.5 million, while still being able to meet the minimum requirement.

### Exposure of the Company to Various Risks

Each year, the actuary projects the expected results of the Company according to its business plan (three-year plan). This analysis, called the dynamic capital adequacy testing (DCAT), is presented to the board and filed with the regulatory authorities. The purpose of this analysis is to make sure the Company has enough capital to successfully go through the next few years and face unexpected outcomes.

This exercise considers many unfavourable scenarios in order to test the financial strength of the Company. From this analysis, two main threats have been identified: a decrease in the interest rates available for reinvestment and an unfavorable trend in the lapse rates of the policies. None of the scenarios tested jeopardize the solvency of the Company.

## 12. Investment Income

	<u>1998</u>	<u>1997</u>
<b>Earned income</b>		
Bonds	\$ 16,972	\$ 17,378
Mortgages	8,056	7,530
Real estate, net amount	2,382	2,886
Mortgage pools	547	608
Other	<u>920</u>	<u>758</u>
	<u>28,877</u>	<u>29,160</u>
<b>Amortization of deferred realized gains and losses and recognition of unrealized gains and losses</b>		
Bonds	484	381
Stocks	6	3
Mortgage pools	(45)	(40)
Real estate	<u>(1,065)</u>	<u>(937)</u>
	<u>(620)</u>	<u>(593)</u>
<b>Investment expenses</b>	<u>(622)</u>	<u>(590)</u>
	<u>\$ 27,635</u>	<u>\$ 27,977</u>

### 13. Employees' and Agents' Pension Plans

The most recent actuarial valuations were prepared as of December 31, 1995. According to the actuarial projections as at December 31, 1998, the actuarial value of pension benefits amounts to \$11.1 million (1997 - \$10.1 million) and the estimated market value of the pension plan assets is \$11.3 million (1997 - \$10.5 million). The pension cost charged to income amounts to \$403,000 (1997 - \$411,000).

### 14. Segmented Information

The Company operates principally in the life and health insurance industry including sales and services with respect to individual and group life and health insurance and annuity products.

The line of business and geographic segmented information is as follows:

	1998		
	Premiums	Investment Income	Assets
Individual Insurance	\$ 16,505	\$ 7,075	\$ 89,347
Group Insurance	13,529	1,294	13,057
Financial Services	10,158	11,817	146,994
Other	—	1,771	53,646
Canadian Total	40,192	21,957	303,044
United States	1,862	5,678	91,881
	<u>\$ 42,054</u>	<u>\$ 27,635</u>	<u>\$ 394,925</u>
	1997		
	Premiums	Investment Income	Assets
Individual Insurance	\$ 16,064	\$ 6,455	\$ 79,822
Group Insurance	12,948	1,301	15,211
Financial Services	20,547	12,191	160,548
Other	—	2,698	46,388
Canadian Total	49,559	22,645	301,969
United States	2,833	5,332	86,068
	<u>\$ 52,392</u>	<u>\$ 27,977</u>	<u>\$ 388,037</u>

### 15. Foreign Exchange

All liabilities in United States dollars are matched with assets of the same currency. A similar approach is followed in Canada. If the value of the Canadian dollar relative to the US currency decreases, the Company earnings are increased and vice versa. An amortization formula is used for unrealized gains and losses on currency translation in order to even the impact on the results of operations.

### 16. Comparative Figures

Certain comparative figures have been reclassified in order to conform with the presentation adopted for the year ended December 31, 1998.

In 1998, the unamortized deferred exchange gains and losses are no longer shown as a reduction of each of the corresponding assets and liabilities. They are instead shown separately as a liability. This new presentation has increased the 1997 assets and liabilities by \$7 million and \$4.5 million, respectively. The difference of \$2.5 million represents the balance of the nonamortized deferred exchange gain as of December 31, 1997.

### 17. Uncertainties

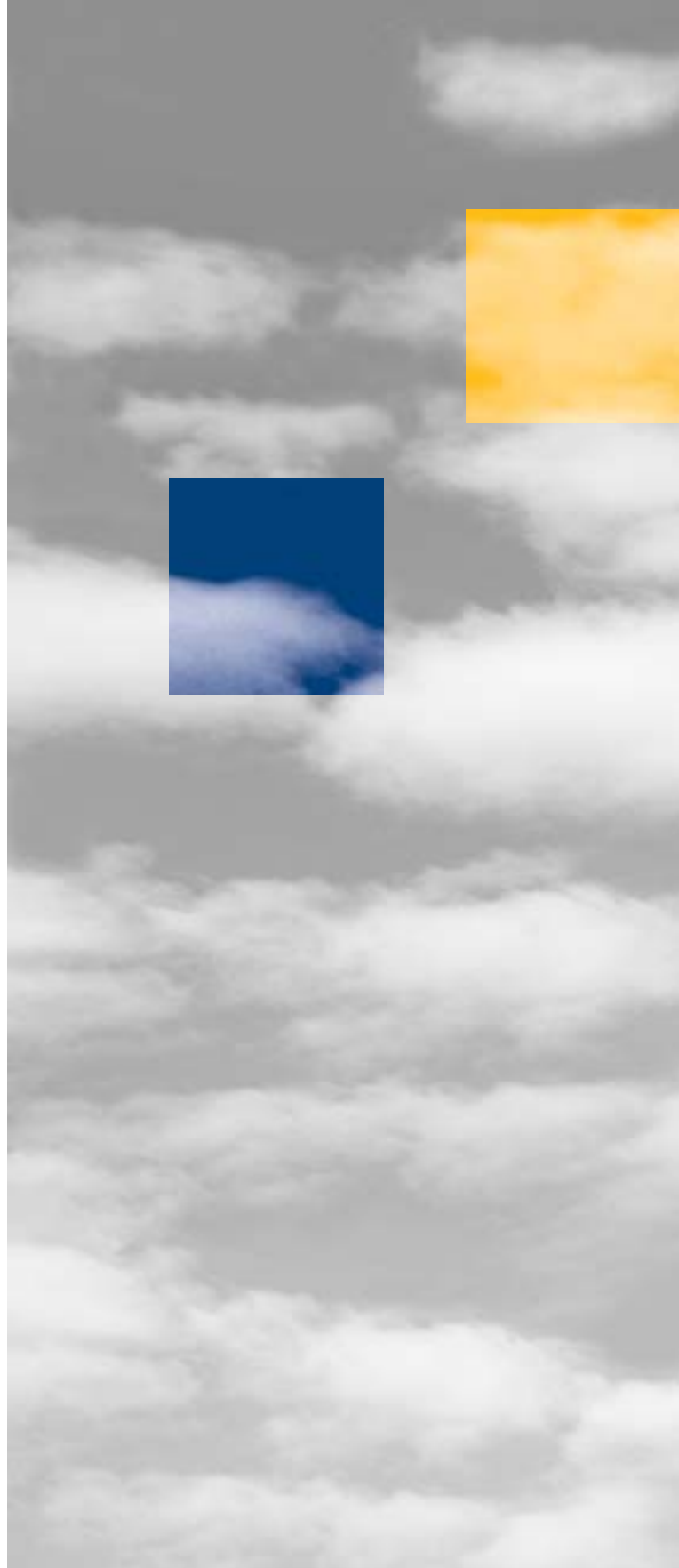
#### Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations.

A cross-functional team has been established to eliminate or minimize the impact of this issue at Assumption Life. This includes consideration of the products and services of its suppliers as well as of the Company's subsidiaries. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

#### Taxes

The income tax expense is calculated based on rates and laws applicable or known at the time the report is issued. In calculating the tax provision for the United States branch, some of these elements are known only after the publication of the financial statements or may change and affect significantly taxes paid for the year just ended. The difference in taxes ultimately paid and taxes expended for the year is charged to income in the following year. This may cause unusual variations in taxes compared to profit before taxes for any one year.



Human Resources  
(at December 31, 1998)

Senior Management

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President and CEO

**Odette Snow**

B.A., LL.B., LL.M.  
Vice President  
Secretary and General  
Counsel

**Patricia LeBlanc**

B.A.A., CGA, FLMI  
Associate Vice President  
Finance and Information  
Technologies

**Kenneth Losier**

Associate Vice President  
Financial Services,  
Real Estate Holdings and  
Mortgage Loans

**Raymond Martin**

FSA, FCIA, M.A.A.A.  
Associate Vice President  
Actuarial Services

Department Heads

**Murielle Belliveau**

B.Soc.Sc., M.Sc.  
Director  
Communications /  
Client relations

**Henri Boudreau**

B.A., CA  
Director  
Finance

**Réjean Boudreau**

B.A.A.  
Director  
Human Resources

**Joël Drolet**

B.A.A.  
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Group Insurance

**Marc Robichaud**

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Director  
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