

Annual Report 2000



Assumption Life

Board of Directors

Louis R. Comeau*

Chairman of the Board, Assumption Life

Denis Losier

President and CEO, Assumption Life

Paul L. Bourque*, CMA, CA

President, Paul L. Bourque and Company

Jean Collin*, CGA

Project Manager, J.D. Irving Ltd.

Roger Fournier

President, Triangle Kitchen Ltd.

Bernard Cyr

President, Dooly's Inc.

Noël M. Després

General Manager, Comeau's Sea Foods Ltd.

J. Bernard Marcil*, FCA

Vice Chairman of the Board, Assumption Life

Jeannette Lalonde-Bard

President, Le Groupe Lalonde-Bard Inc.

Louis Benoit*, CGA, CA

Associate, Losier, Doiron, Larocque, Benoit

Jean-Jacques Roy, Ing.

President and CEO, Le Groupe Roy Consultants



* Member of the Audit Committee

Message from
the President and Chief Executive Officer

The year 2000 was for Assumption Life a year full of challenges and opportunities and, once again, we have demonstrated that we could even set the bar a little higher and achieve bigger objectives. In the year 2000, we posted the highest profits in the Company's history, namely \$3.4 million, an increase of 74% over the previous year! Louisbourg Investments had \$1.3 billion in assets under management, an increase of 28%. The increases in our sales have been outstanding, reaching from 16% in Individual life insurance to 47% for Group insurance. Our financial services sector has also experienced significant growth, with an increase of 38% in sales. Financial institutions, as well as all others in the economic sector, are aware of the pressures exerted by

technological change. Obviously, all these developments represent new challenges for Assumption Life, from the point of view of both technology and human resources. We have to choose the proper strategic orientation. In 2001, Assumption Life will devote a significant part of its capital budget to its information systems. Our number one priority is to offer service of unparalleled quality to our customers. We must aim for excellence, every day in every way. The development of e-commerce and its technologies will also result in additional pressures on our human resource policies, which must reflect these changes in our environment. We are approaching 2001 with confidence and enthusiasm. Our team is eager to take on new challenges.

I am deeply grateful to the management team and to all our employees who allow us to reach such heights. I extend my thanks to Louis Comeau and the members of the Board of Directors. To our clients and other economic partners, thanks for your renewed trust.



Denis Losier
President and CEO



Message from
the Chairman of the Board

This millennium year will go down in the history of Assumption Life as a record-setting year. In spite of movement within the financial services industry, Assumption Life remains an economic leader in Eastern Canada. Our Company's current prosperity is set to continue. We plan to keep on seeking recognition as a major player in the industry by reaching into new markets. The exploration of e-commerce, a primary component of our strategic plan, constitutes an example of the determination of Assumption Life to always be working on the leading edge. One of the priorities of the Board of Directors this year was the implementation of a legislative and risk management compliance program. The Board also made significant advances

in Human Resource issues. Several enhancements were made to the employee pension plans and benefits program. These changes will help us continue to offer a competitive work environment and to attract and retain the highest quality employees. This is crucial, because all of the company's employees and representatives contribute to its success. On behalf of the Board of Directors, please accept my thanks for your work. I would like to express my deepest appreciation to Denis Losier for his dedication and his determination to help Assumption Life continue to excel. It is largely because of him that we experienced our great success over the past year. I extend my thanks also to the management team and to all employees. Finally, I would like to thank

the members of the Board of Directors, each of whom is dedicated to making this company the best it can be.



Louis Comeau
Chairman of the Board



Valuation Actuary's Report

I have valued the policy liabilities of Assumption Mutual Life Insurance Company for its consolidated balance sheet as of December 31, 2000, 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.



Michel Giguère

*Fellow,
Canadian Institute of Actuaries
Moncton, New Brunswick
February 22, 2001*

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, 2000. 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,

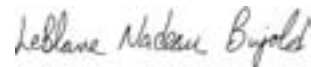


Denis Losier,
*President and
Chief Executive Officer
February 26, 2001*

Auditors' Report to Policyholders

We have audited the consolidated balance sheet of **Assumption Mutual Life Insurance Company** as of **December 31, 2000**, and the consolidated statements of income, surplus and cash flows, 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 of **December 31, 2000**, and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting principles.



LeBlanc Nadeau Bujold
Chartered Accountants

Moncton, New Brunswick
February 19, 2001

Consolidated Balance Sheet


(in thousands)
As of December 31

	Notes	2000	1999
Assets			
Marketable securities	3	\$221,051	\$218,279
Mortgages	4	128,614	129,282
Real estate	3	24,225	24,914
Loans to policyholders		6,071	5,961
Cash and term deposits		19,276	3,142
Accrued investment income		4,244	4,313
Capital assets	5	1,789	2,503
Other assets	6	11,780	11,026
		<u>\$417,050</u>	<u>\$399,420</u>
Liabilities			
Policy liabilities:			
Actuarial liabilities	7	\$329,820	\$320,102
Benefits payable and other provisions		4,403	4,957
Insureds' deposits		16,918	13,339
Long-term debt	8	11,896	10,246
Deferred gains and losses	9	3,240	4,700
Future income taxes	10	3,465	1,124
Other liabilities	11	9,546	8,866
		<u>379,288</u>	<u>363,334</u>
Policyholders' Equity			
Surplus		<u>37,762</u>	<u>36,086</u>
		<u>\$417,050</u>	<u>\$399,420</u>
Assets Under Management			
		<u>\$278,040</u>	<u>\$247,514</u>
Uncertainties	13		

Signed on behalf of the board



Chairman



President and CEO

**Consolidated
Statement of Income**

(in thousands)

Year ended December 31

	<i>Notes</i>	2000	1999
Revenue			
Insurance premiums		\$36,374	\$31,910
Annuity premiums		27,585	21,599
Investment income	14	29,534	28,471
Other		<u>2,575</u>	<u>1,763</u>
		<u>96,068</u>	<u>83,743</u>
Expenses			
Insurance benefits		22,154	19,964
Annuity benefits		43,450	29,439
Increase in actuarial liabilities		4,927	11,069
Other policyholders' benefits		2,132	1,939
Administration		12,183	11,408
Commissions		3,194	2,585
Interest on long-term debt		905	830
Other		<u>1,035</u>	<u>1,213</u>
		<u>89,980</u>	<u>78,447</u>
Operating Income Before Dividends and Taxes		6,088	5,296
Dividends		<u>791</u>	<u>791</u>
Income Before Taxes		<u>5,297</u>	<u>4,505</u>
Income taxes payable	10	2,508	2,526
Future income taxes	10	<u>(616)</u>	<u>22</u>
		<u>1,892</u>	<u>2,548</u>
Net Income for the Year		<u>\$3,405</u>	<u>\$1,957</u>

**Consolidated
Statement of Surplus**

(in thousands)

Year ended December 31

	<i>Note</i>	2000	1999
Balance - Beginning of year			
As previously reported		\$36,086	\$34,129
Prior years' adjustments	15	<u>(1,729)</u>	<u>—</u>
As restated		34,357	34,129
Net income for the year		<u>3,405</u>	<u>1,957</u>
Balance - End of year		<u>\$37,762</u>	<u>\$36,086</u>

Consolidated Statement of Cash Flows	Note	2000	1999
Operations			
(in thousands)			
Year ended December 31			
Net income for the year		\$3,405	\$1,957
Items not affecting cash:			
Increase in actuarial liabilities		<u>4,927</u>	<u>11,069</u>
Amortization of capital assets and goodwill		1,153	1,073
Amortization related to investment income	14	632	440
Other		<u>(4,334)</u>	<u>(448)</u>
		<u>5,783</u>	<u>14,091</u>
Change in non-cash working capital items related to operations		<u>3,556</u>	<u>2,907</u>
		<u>9,339</u>	<u>16,998</u>
Financing			
Increase in actuarial liabilities		1,498	—
Increase in long-term debt		5,600	—
Reimbursement of long-term debt		<u>(3,950)</u>	<u>(719)</u>
		<u>3,148</u>	<u>(719)</u>
Investment			
Marketable securities, mortgages and real estate:			
Sales, maturities and reimbursements		51,414	30,372
Purchases and loans		<u>(49,003)</u>	<u>(37,723)</u>
Acquisition of capital assets		(350)	(548)
Other		<u>1,586</u>	<u>(6,432)</u>
		<u>3,647</u>	<u>(14,331)</u>
Increase in cash and term deposits during the year		16,134	1,948
Cash and term deposits - Beginning of year		<u>3,142</u>	<u>1,194</u>
Cash and term deposits - End of year		<u>\$19,276</u>	<u>\$3,142</u>

Consolidated Statements of Segregated Funds	2000	1999
(in thousands)		
As of December 31		
Net Assets		
Investments:		
Bonds	\$100,755	\$70,247
Stocks	76,220	86,864
Pooled funds	86,447	72,502
Mortgages	6,111	4,556
Cash and term deposits	7,499	12,474
Accrued investment income	<u>1,125</u>	<u>1,049</u>
	<u>278,157</u>	<u>247,692</u>
Liabilities		
	<u>117</u>	<u>178</u>
Participants' equity	<u>\$278,040</u>	<u>\$247,514</u>
Change in Net Assets		
Year ended December 31	2000	1999
Net Assets - Beginning of year	<u>\$247,514</u>	<u>\$203,131</u>
Net contributions:		
Contributions	45,315	32,143
Withdrawals	<u>(19,352)</u>	<u>(18,911)</u>
	<u>25,963</u>	<u>13,232</u>
Investment income:		
Change in value of investments	(1,097)	29,668
Interest and dividends	7,353	6,332
Realized losses	<u>(225)</u>	<u>(3,523)</u>
	<u>6,031</u>	<u>32,477</u>
Management and administrative fees	<u>(1,468)</u>	<u>(1,326)</u>
Net Assets - End of year	<u>\$278,040</u>	<u>\$247,514</u>

Notes to Consolidated Financial Statements

(tabular amounts in thousands)
Year ended December 31, 2000

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 impaired when, in its opinion, there is reasonable doubt as to the ultimate collectibility of a portion of principal or interest. Interest is not recognized on impaired investments. 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 3 to 10 years.

Goodwill

Goodwill, arising from acquisitions, is recorded at cost and amortized on the straight-line method over periods of up to twelve years.

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.

Taxes

The Company provides for income taxes using the liability method of tax allocation. The income tax provision is comprised of income tax payable and future income taxes. Income tax payable is based on taxable income. Future income taxes reflect the net tax effects of temporary differences between assets and liabilities reported for financial statement

purposes and those reported for income tax purposes. In addition to statutory income taxes, charges to operations include investment income tax, the large corporations' tax and the tax on capital imposed on financial institutions.

Foreign Currency Translation

Monetary assets and liabilities in foreign currencies are converted at the rate of exchange in effect at the balance sheet date. Non-monetary 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, 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.

Employee Benefit Plans

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. The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets. The Company has adopted the following policies:
The cost of pensions and other retirement benefits including dental, health and group life insurance earned by employees is actuarially determined using the projected benefit method pro rated on service, using management's best estimate of expected plan investment performance, salary escalation, retirement age of employees and expected health care costs.

For the purpose of calculating the expected return on plan assets, those assets are valued at market value. The excess of the net actuarial loss over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service periods of the active employees covered by the three pension plans are 23, 20 and 16 years. The average remaining service periods of the active employees covered by the other retirement benefit plans are the same as the pension plans.

Actuarial assumptions utilized to determine benefits obligation under the defined benefit plans.

	2000
Discount rate	6.25%
Expected long-term rate of return on plan assets	7.25%
Rate of compensation increase	3.75%

For measurement purposes, a 15% annual rate of increase was assumed to cover healthcare benefits.

3. Marketable Securities and Real Estate

	2000		1999	
	Carrying Value	Market Value	Carrying Value	Market Value
Marketable securities:				
Bonds	\$213,941	\$245,361	\$210,959	\$233,541
Mortgage pools	754	744	3,638	3,480
Investment funds	3,885	3,813	1,316	1,521
Others	2,471	2,437	2,366	2,017
	<u>221,051</u>	<u>252,355</u>	<u>218,279</u>	<u>240,559</u>
Real estate	24,225	24,867	24,914	24,909
	<u>\$245,276</u>	<u>\$277,222</u>	<u>\$243,193</u>	<u>\$265,468</u>

Ninety-five percent (94% - 1999) of the bond portfolio is comprised of bonds with an A rating or better. Government bonds represent 70% of the bond portfolio.

4. Mortgages

	2000		1999	
	Recorded Investment	Allowance for Impairment	Carrying Value	Carrying Value
Mortgages:				
Non impaired				
Residential	\$87,806	\$ -	\$87,806	\$91,658
Commercial	39,802	-	39,802	36,721
Impaired				
Residential	76	13	63	60
Commercial	1,076	133	943	843
	<u>\$128,760</u>	<u>\$146</u>	<u>\$128,614</u>	<u>\$129,282</u>

Investment income includes a charge for loan impairment in the amount of \$64,000 (\$227,000 - 1999). Thirty two percent (32%) of the mortgage loan portfolio is insured while 0.1% of the portfolio is in arrears by 90 days or more.

5. Capital Assets

	2000			1999
	Cost	Accumulated Amortization	Net	Net
Furniture and equipment	\$3,743	\$3,092	\$651	\$678
Software	3,392	2,491	901	1,377
Leasehold improvements	928	691	237	448
	<u>\$8,063</u>	<u>\$6,274</u>	<u>\$1,789</u>	<u>\$2,503</u>

Administration expenses include the amortization of capital assets amounting to \$1,064,000 (\$988,000 - 1999).

6. Other Assets

	2000	1999
Accounts receivable:		
Clients	\$3,263	\$2,437
Reinsurers	2,315	2,638
Premiums receivable	2,781	3,024
Commissions and prepaid expenses	1,782	1,731
Goodwill	264	253
Other	1,375	943
	<u>\$11,780</u>	<u>\$11,026</u>

Administration expenses include the amortization of goodwill amounting to \$89,000 (\$85,000 - 1999).

7. Actuarial Liabilities

Nature and Composition of Actuarial Liabilities

Actuarial liabilities represent the amounts which, together with estimated future premiums and investment income, will be sufficient to pay the estimated future benefits, dividends, and expenses on policies in force. Actuarial liabilities are determined using generally

accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries. The valuation method used is the policy premium method. The Company operates in both Canada and the United States.

The composition of the Company's actuarial liabilities is as follows:

	2000			1999
	Canada	United States	Total	Total
Individual insurance	\$106,874	\$39,541	\$146,415	\$135,169
Group insurance	15,724	–	15,724	13,221
Individual annuities	122,500	19,005	141,505	142,034
Group annuities	26,176	–	26,176	29,678
	<u>\$271,274</u>	<u>\$58,546</u>	<u>\$329,820</u>	<u>\$320,102</u>

The composition of the assets backing actuarial liabilities and surplus is as follows:

	2000				
	Marketable Securities	Mortgages	Real Estate	Other	Total
Carrying value					
Individual insurance	\$112,161	\$16,737	\$ –	\$17,517	\$146,415
Group insurance	1,601	13,290	–	833	15,724
Individual annuities	70,942	62,506	–	8,057	141,505
Group annuities	9,890	13,312	2,700	274	26,176
Other, including surplus	26,457	22,769	21,525	16,479	87,230
	<u>\$221,051</u>	<u>\$128,614</u>	<u>\$24,225</u>	<u>\$43,160</u>	<u>\$417,050</u>
Geographic:					
Canada	\$145,279	\$128,614	\$24,225	\$36,528	\$334,646
United States	75,772	–	–	6,632	82,404
	<u>\$221,051</u>	<u>\$128,614</u>	<u>\$24,225</u>	<u>\$43,160</u>	<u>\$417,050</u>
Market value					
Geographic:					
Canada	\$178,191	\$123,531	\$24,867	\$36,528	\$363,117
United States	74,164	–	–	6,632	80,796
	<u>\$252,355</u>	<u>\$123,531</u>	<u>\$24,867</u>	<u>\$43,160</u>	<u>\$443,913</u>

	1999				
	Marketable Securities	Mortgages	Real Estate	Other	Total
Carrying value					
Individual insurance	\$112,512	\$13,697	\$ -	\$8,960	\$135,169
Group insurance	1,964	10,375	800	82	13,221
Individual annuities	65,391	67,714	2,700	6,229	142,034
Group annuities	8,233	19,677	1,800	(32)	29,678
Other, including surplus	30,179	17,819	19,614	11,706	79,318
	<u>\$218,279</u>	<u>\$129,282</u>	<u>\$24,914</u>	<u>\$26,945</u>	<u>\$399,420</u>
Geographic:					
Canada	\$140,388	\$129,282	\$24,914	\$20,876	\$315,460
United States	77,891	-	-	6,069	83,960
	<u>\$218,279</u>	<u>\$129,282</u>	<u>\$24,914</u>	<u>\$26,945</u>	<u>\$399,420</u>
Market value					
Geographic:					
Canada	\$167,859	\$120,110	\$24,909	\$20,876	\$333,754
United States	72,700	-	-	6,069	78,769
	<u>\$240,559</u>	<u>\$120,110</u>	<u>\$24,909</u>	<u>\$26,945</u>	<u>\$412,523</u>

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 four 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

	2000	1999
The change in actuarial liabilities for the year is explained as follows:		
Actuarial liabilities at the beginning of the year	\$320,102	\$313,033
Prior years' adjustments	<u>677</u>	<u>-</u>
As restated	320,779	313,033
Normal increase in liabilities	6,760	11,798
Changes resulting from revised actuarial assumptions	(335)	(729)
Currency revaluation	<u>2,616</u>	<u>(4,000)</u>
Actuarial liabilities at the end of the year	<u>\$329,820</u>	<u>\$320,102</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:

	2000	1999
Canada	\$36,057	\$32,992
United States	<u>46</u>	<u>43</u>
	<u>\$36,103</u>	<u>\$33,035</u>

8. Long-Term Debt

	2000	1999
Mortgage Loans		
Mortgage loans at a rate of 7.93%, maturing in April 2002 and pledging real estate	\$11,599	\$9,733
Other Loans		
Loan at prime rate minus 1% with no maturity date	<u>297</u>	<u>513</u>
	<u>\$11,896</u>	<u>\$10,246</u>
Payments on principal required in each of the next five years to meet retirement provisions are as follows:		
Year ending December 31,	2001	\$241
	2002	\$261
	2003	\$282
	2004	\$305
	2005	\$329

9. Deferred Gains and Losses

	2000	1999
Bonds	\$1,553	\$3,163
Mortgage pools	(245)	(176)
Real estate	(280)	(311)
Other investments	60	80
Foreign exchange	<u>2,152</u>	<u>1,944</u>
	<u>\$3,240</u>	<u>\$4,700</u>

10. Taxes

The effective income tax rate in the Company's consolidated statement of income differs from the statutory tax rate, mainly as a result of the following:

	2000		1999	
Income tax at statutory rate	\$2,256	42.6%	\$2,045	45.4%
Increase (decrease) in the tax rate resulting from:				
Investment income tax	250	4.8	274	6.0
Large capital tax	175	3.3	172	3.8
Prior year adjustments	(394)	(7.4)	270	6.0
Permanent differences	(178)	(3.4)	(29)	(0.6)
Differences in tax rates in foreign jurisdictions	(492)	(9.3)	(303)	(7.0)
Other	<u>275</u>	<u>5.1</u>	<u>119</u>	<u>3.0</u>
	<u>\$1,892</u>	<u>35.7%</u>	<u>\$2,548</u>	<u>56.6%</u>

The income tax expense charged to operations is as follows:

	2000	1999
Canadian income tax expense:		
Income tax payable	\$1,932	\$1,861
Future income taxes	<u>(621)</u>	<u>22</u>
	<u>1,311</u>	<u>1,883</u>
Foreign income tax expense:		
Income tax payable	576	665
Future income taxes	<u>5</u>	<u>-</u>
	<u>581</u>	<u>665</u>
	<u>\$1,892</u>	<u>\$2,548</u>

The Company's future tax assets and liabilities arise from the following items:

	2000	1999
Investments	\$(300)	\$ -
Actuarial liabilities	2,058	-
Capital assets	2,048	1,124
Other	<u>(341)</u>	<u>-</u>
	<u>\$3,465</u>	<u>\$1,124</u>

11. Other Liabilities

2000 1999

(Continued)

Accounts payable:

Suppliers	\$2,057	\$2,737
Reinsurers	2,587	1,446
Other	<u>4,902</u>	<u>4,683</u>
	<u>\$9,546</u>	<u>\$8,866</u>

12. Employee Benefit Plan

The item "Other Liabilities" includes all employee benefit plans. Information about the Company's defined benefit pension plans is as follows:

2000

Accrued benefit obligation:

Balance at beginning of year	\$12,661
Current service cost	1,091
Interest cost	898
Benefits paid	(909)
Actuarial loss	<u>1,370</u>
Balance at end of year	<u>15,111</u>

Plan assets:

Fair value at beginning of year	12,663
Actual return on plan assets	72
Employer contributions	607
Employees' contributions	461
Benefits paid	<u>(909)</u>
Fair value at end of year	<u>12,894</u>

Funded status – (deficit) \$ (2,217)

The Company's pension plan expense is computed as follows:

	2000
Current service cost, net of employees' contributions	\$630
Interest cost	898
Expected return on plan assets	<u>(924)</u>
Pension expense	<u>\$604</u>

Other liabilities on the balance sheet include a liability of \$282,000 for future employee benefits, as follows:

2000

Group insurance benefits liability	\$287
Pension plan asset	<u>(5)</u>
	<u>\$282</u>

13. Uncertainties

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.

14. Investment Income

	2000	1999
Earned income		
Bonds	\$16,441	\$16,688
Mortgages	9,900	8,598
Real estate, net amount	2,366	2,486
Investment funds	185	88
Mortgage pools	150	213
Other	<u>1,800</u>	<u>1,403</u>
	<u>30,842</u>	<u>29,476</u>
Amortization of deferred realized gains and losses and recognition of unrealized gains and losses		
Bonds	534	647
Stocks	(27)	10
Mortgage pools	(50)	(41)
Real estate	<u>(1,089)</u>	<u>(1,056)</u>
	<u>(632)</u>	<u>(440)</u>
Investment expenses	<u>(676)</u>	<u>(565)</u>
	<u>\$29,534</u>	<u>\$28,471</u>

15. Prior Years' Adjustments

	Canada	United States	Total
Surplus, beginning of year	\$19,142	\$16,944	\$36,086
Adjustments:			
Employee future benefits			
Parent company	(572)	–	(572)
Subsidiaries	<u>308</u>	<u>–</u>	<u>308</u>
	<u>(264)</u>	<u>–</u>	<u>(264)</u>
Future income taxes			
Parent company	(1,383)	328	(1,055)
Subsidiaries	<u>(451)</u>	<u>–</u>	<u>(451)</u>
	<u>(1,834)</u>	<u>328</u>	<u>(1,506)</u>
Other			
Parent company	510	(469)	41
Total adjustments	<u>(1,588)</u>	<u>(141)</u>	<u>(1,729)</u>
Restated balance, beginning of year	<u>\$17,554</u>	<u>\$16,803</u>	<u>\$34,357</u>

The consolidated surplus balance at the beginning of the year was restated to reflect the retroactive application of two new accounting policies: Employee Future Benefits and Future Income Taxes. The opening balance was also adjusted for the recovery of a prior year tax loss and for an increase in actuarial liabilities.

16. Additional Information on the Statement of Cash Flows

Cash flows related to operating activities include the following elements:

	2000	1999
Interest paid on financing	\$889	\$836
Income taxes paid	\$2,183	\$1,210
Dividends paid	\$217	\$218

17. 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 179% (181% in 1999) 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 1.79 times the minimum requirement. This level enables the Company to face unexpected negative results of approximately \$16.1 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.

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

	2000			1999		
	Premiums	Investment income	Assets	Premiums	Investment income	Assets
Individual Insurance	\$16,907	\$8,515	\$109,423	\$15,497	\$7,828	\$98,726
Group Insurance	18,545	1,322	15,821	15,152	1,538	13,238
Financial Services	27,226	11,990	149,491	21,066	10,948	151,112
Other	—	2,551	59,911	—	2,557	52,384
	<u>62,678</u>	<u>24,378</u>	<u>334,646</u>	<u>51,715</u>	<u>22,871</u>	<u>315,460</u>
Canadian Total	62,678	24,378	334,646	51,715	22,871	315,460
United States	<u>1,281</u>	<u>5,156</u>	<u>82,404</u>	<u>1,794</u>	<u>5,600</u>	<u>83,960</u>
	<u>\$63,959</u>	<u>\$29,534</u>	<u>\$417,050</u>	<u>\$53,509</u>	<u>\$28,471</u>	<u>\$399,420</u>

19. 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.

18. 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.

20. Comparative Figures

Certain comparative figures have been reclassified in order to conform with the presentation adopted for the year ended December 31, 2000.

Assumption Life Recognizes Excellence.

Congratulations to all employees who went above and beyond in 2000!

President's Award: Jeannine Bourgeois

Administrative Assistant
Human Resources

Management Award: Étienne LeBoeuf

Director
Finance

Volunteer Award: Carmen Arsenault

Claims Analyst/Underwriter
Individual Administration



Customer Service Award:

Jean Arseneault

Programmer/Analyst
Information Technology (IT)

Jocelyne Arseneau

Customer Service Representative
Financial Services

Lisette Surette

Customer Service Representative
Individual Administration

Patricia Léger

Dental Claims Representative
Group Administration

Nicole Richard

Customer Service Representative
Individual Administration

Pierrette Dumond

Office Coordinator
Assumption Financial Centre
(Edmundston)

Fernande Goguen

Loan Officer
Mortgages

Human Resources

(as of December 31, 2000)

Senior Management

Denis Losier

B.A., B.Soc.Sc., M.Ec.
President and CEO

Odette Snow

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

Paul D'Astous

Vice President
Sales and Marketing

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

Réjean Boudreau

B.A.A.
Director
Human Resources

Joël Drolet

B.A.A.
Director
Group Insurance

Étienne LeBoeuf

B.A.A., L.Sc.Compt., CA
Director
Finance

Marc Robichaud

B.Sc. (Act.)
Director
Financial Services

Ronnie Roussel

B.A.A., CGA
Director
Individual Insurance

Bernard Savoie

Director
Information Technologies



P.O. Box 160 / 770 Main Street
Moncton, New Brunswick
Canada E1C 8L1

Telephone: (506) 853-6040
Fax: (506) 853-5428
1 800 455-7337
www.assumption.ca

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