

APPENDIX No. 1

Q. In exchange?—A. In exchange for the original policy. In those cases the premium rate fixed and levied is determined by his original age of entry, and he, having contributed nothing towards the reserve of the company that would be required of that policy that had been in force the number of years that his policy has been in force, has the option to pay either the cash equal to the reserve required under the policy or else to give his interest-bearing note therefor. Every one of those policies has a guaranteed cash or loan value in event of surrender, and in no instance is that note admitted as an asset in excess of the reserve that is charged against the company on account of that policy, or in excess of the cash value that can be drawn from the association in event of the surrender of policy. Any liens that may exist against the assessment policies are not carried as assets, and none of them have ever been carried as assets. Identically the same condition exists in many companies, and instead of this, as has been stated, being a thing peculiar to the Mutual Reserve, there are many companies that have identically the same thing, and they are admitted as assets. These particular liens have been returned as assets to all the departments to which this company report, and accompanying in the report the reserve against those policies has been charged as a liability. So long as this company was an assessment company, the New York Insurance Department ruled that it had no authority to charge as a liability against the company the reserve on these policies, and because of that it directed the company to exclude the amount of reserve from the liabilities, and also the liens from the assets and necessarily from the income and the expenditures. With the exception of the State of New York, no objection has ever been raised to these liens as assets, excepting in the State of Massachusetts. When they were first returned to the State of Massachusetts, they were accepted as assets and carried into the report as such, and the corresponding liability was charged against the company. Subsequently, however, the year following the first return of them, the Insurance Commissioner of Massachusetts obtained an *ex parte* opinion from the Attorney General of the State that they should not be admitted as assets, and the reserve should not be charged as liabilities, and, accordingly, that year, he excluded them from the report. After this ruling was made public, an appeal was made to the Attorney General of Massachusetts to rehear the matter, which he did, and on the rehearing he decided that they were assets, and directed the insurance commissioner to admit them as assets and to charge the company with the corresponding liability. Upon the reincorporation of the company, it becoming a legal reserve company, under the law of New York, then the insurance superintendent was directed by the law to charge the reserve as a liability and at that time he admitted the liens as assets, because the corresponding liability was charged.

Q. Every lien which was entered as an asset is a lien evidenced by a note of the insured?—A. Yes.

Q. And is a lien on the level premium policy, on which you are bound to have a reserve?—A. Yes.

Q. And the legal reserve is charged as a liability?—A. Yes.

Q. And in New York and everywhere they are admitted as assets?—A. Yes.

Q. And if you remove them as assets, you would have to remove a corresponding amount as legal reserve?—A. Yes.

Q. So it would not affect the balance?—A. No.

Q. You were admitted as a legal reserve company a few years prior to being admitted as such in New York?—A. On the 11th August, 1892, and we were not treated as a level premium company in New York until the 17th April, 1902.

Q. And for a few years you claimed those liens as assets in Canada, when you did not have them as such in New York?—A. So far as the liens existed in Canada, we were obliged to return them in our report as assets to the Canadian department as Canadian business. That being the case, and it presenting itself to us, being a legal reserve company under the law and an assessment company in New York, on the return to the Canadian department and our report in the form required by the