2002 Annual Report

Assumption Life

100 years
A century of experience

2002 Board of Directors

J. Bernard Marcil*, FCA
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-Claude Savoie*
President, Groupe Savoie

Maureen E. Reid
President, BoardWorks Consulting

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

Roger Fournier
President, Triangle Kitchen Ltd.

Jeannette Lalonde
General Manager, AFA Horizon Inc.

Louis Benoit*, CGA, CA
Associate, Losier Doiron Larocque Benoit

Jean-Jacques Roy, Ing.
President and CEO, Le Groupe Roy Consultants

Gerald L. Pond*
President and CEO, iMagic TV

* Member of the Audit Committee

Message from
the President and Chief Executive Officer

The year 2002 will be looked upon as a reflection of 2001: despite the uncertain and volatile context of the North American markets, Assumption Life has made the best of the past year.

For the third consecutive year, we have recorded our highest net earnings yet, $5.5 million, up 9% over 2001. Our total profit over the past five years now stands at $18.7 million. Meanwhile, policyholders' equity increased to $48.4 million. In spite of poor stock market performance, our total assets under management increased 2.5%, to reach $725 million. Total assets under management by Louisbourg Investments remained relatively stable, at approximately $1.1 billion. Moreover, our solvency ratio climbed to 203%, significantly higher than the minimum requirement of 120% set by the regulatory authorities.

Assumption Life posted sales of $2.5 million in individual life insurance, down slightly over 2001. However, total policies in force grew 3.2% in comparison to average growth of 0.2% industry-wide. Group insurance sales have increased 40% since 1998; we have thus succeeded in enhancing profitability in this market niche. Growth in automobile credit insurance exceeded all expectations, with total sales of $5.2 million, the highest ever for this product. Our financial services sector also recorded increased sales of $41.5 million, compared to $26.2 million in 2001, in spite of adverse market conditions.

In 2002, we continued the technological conversion begun in 2001. Thanks to our online service, our representatives can quickly access their clients' information and request proposals. In September 2002, we also launched events marking Assumption Life's 100th anniversary, which we will continue to celebrate through 2003. This 100th anniversary year also marks the 30th anniversary of Assumption Place, an undeniable landmark in downtown Moncton.

In closing, I would like to extend special thanks to Mr. Bernard Marcil, outgoing Chairman of the Board, and to Mr. Roger Fournier for their nine years of service to the advancement of Assumption Life. I would also like to thank all Board members for their contribution to the growth of our company and our clients for their loyalty and the trust they have placed in Assumption Life. Finally, whatever the current economic context and whatever new business challenges await, I am convinced that our future is assured as long as we continue to rely on the experience, skill, and dedication of our employees, agents, and brokers, people who contribute daily to the success of Assumption Life and the security of our clients.

Denis Losier

Denis Losier
President and CEO

Message from **the Chairman of the Board of Directors**

The founders of Assumption Life would doubtless be proud to witness the achievements of the Company on the occasion of its 100th anniversary. For example, our recent financial performance is the best in our history, with earnings surpassing the $100 million mark for the first time, our solvency ratio exceeding 200%, total assets under management reaching $725 million, and record net earnings totalling $5.5 million.

Beyond these impressive results, however, the current Board of Directors and all previous Boards have also taken pride in upholding the heritage bequeathed to us by our earliest leaders.

Naturally, the Company has experienced times of turbulence through the years, but we have always remained true to our role in the community.

We have also remained true to our staff, whom the Company views as key contributors to its success. Assumption Life was recently ranked one of the top 100 employers in Canada for the second year in a row, which testifies to the importance that the Company places on its relationship with its employees.

A century after its founding, Assumption Life enjoys an enviable reputation among its clients, suppliers, and competitors. The Company is well positioned with a financial surplus of $50 million, and we look to the future with great optimism, eager to face the challenges we are bound to encounter down the road.

Your Board of Directors watches over the interests of the owners – our policyholders – by means of sound strategic planning based upon the collective experience of its members.

Bernard Marcil
Chairman of the Board

Valuation Actuary's Report

To the policyholders of Assumption Mutual Life Insurance Company:

I have valued the policy liabilities of **Assumption Mutual Life Insurance Company** for its consolidated balance sheet as at **December 31, 2002**, 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.

Luc Farmer
Fellow,
Canadian Institute of Actuaries

Moncton, New Brunswick
February 13, 2003

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 Canadian 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.

Assumption Mutual Life Insurance Company's actuarial liabilities have been reviewed by an actuary appointed by the Board of Directors. He is responsible for ensuring that the assumptions and methods used in the determination of policy liabilities are appropriate to the circumstances and that such reserves will be adequate to meet the Company's future obligations.

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 Canadian generally accepted auditing standards on behalf of the policyholders. LeBlanc Nadeau Bujold has full access to the Audit Committee.

For Management,

Denis Losier

Denis Losier,
President and
Chief Executive Officer
February 28, 2003

Auditors' Report to Policyholders

We have audited the consolidated balance sheet of **Assumption Mutual Life Insurance Company** as at **December 31, 2002**, 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 Canadian 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, 2002**, and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

LeBlanc Nadeau Bujold
Chartered Accountants

LeBlanc Nadeau Bujold

Dieppe, New Brunswick
February 13, 2003

Consolidated
Balance Sheet
(in thousands of dollars)
As at December 31

	Notes	2002	2001
Assets			Restated
Marketable securities	4	$284,420	$259,157
Mortgages	5	104,873	117,094
Real estate	4	25,622	24,816
Loans to policyholders		6,180	6,170
Cash and term deposits		25,092	14,489
Accrued investment income		4,089	4,117
Capital assets	6	4,133	3,813
Other assets	7	11,484	10,825
		$465,893	$440,481
Liabilities			
Policy liabilities:			
Actuarial liabilities	8	$367,030	$343,980
Benefits payable and other provisions		6,066	6,444
Insureds' deposits		14,062	16,052
Long-term debt	9	11,384	11,707
Deferred gains and losses	10	2,377	2,935
Future income taxes	11	4,116	3,502
Other liabilities	3, 12	12,461	13,001
		417,496	397,621
Policyholders' Equity			
Surplus	3	48,397	42,860
		465,893	$440,481
Assets Under Management		$259,447	$266,060
Uncertainties	14		

Signed on behalf of the board

Chairman

President and CEO

Consolidated
Statement of Income
(in thousands of dollars)
Year ended December 31

	Notes	2002	2001
Revenue			Restated
Insurance premiums		$42,424	$40,688
Annuity premiums		33,790	17,670
Investment income	*15*	29,778	30,335
Other		2,911	2,936
		108,903	91,629
Expenses			
Insurance benefits		24,775	24,165
Annuity benefits		30,565	28,182
Increase in actuarial liabilities		23,688	11,248
Other policyholders' benefits		1,978	2,501
Administration		13,289	12,293
Commissions		3,273	3,132
Interest on long-term debt		658	915
Other		1,296	1,291
		99,522	83,727
Operating Income Before Dividends and Taxes		9,381	7,902
Dividends		839	839
Income Before Taxes		8,542	7,063
Current income taxes	*3, 11*	2,370	1,853
Future income taxes	*11*	635	112
		3,005	1,965
Net Income for the Year		$5,537	$5,098

Consolidated
Statement of Surplus
(in thousands of dollars)
Year ended December 31

	Note	**2002**	**2001**
			Restated
Balance - Beginning of Year		$42,860	$37,762
Net income for the year	*3*	5,537	5,098
Balance - End of Year		$48,397	$42,860

Consolidated **Statement of Cash Flows**

(in thousands of dollars)
Year ended December 31

	Notes	**2002**	**2001**
Operations			Restated
Net income for the year	*3*	$5,537	$5,098
Items not affecting cash:			
Increase in actuarial liabilities		23,688	11,248
Amortization of capital assets and goodwill		1,052	1,001
Amortization related to investment income	*15*	219	(83)
Other		(5,810)	(2,903)
		24,686	14,361
Change in non-cash working capital items related to operations		(287)	4,979
		24,399	19,340
Financing			
Increase in long-term debt		–	52
Reimbursement of long-term debt		(323)	(241)
		(323)	(189)
Investment			
Marketable securities, mortgages and real estate:			
Sales, maturities and reimbursements		45,012	47,626
Purchases and loans		(55,271)	(66,901)
Acquisition of capital assets		(1,677)	(3,157)
Other		(1,537)	(1,506)
		(13,473)	(23,938)
Increase (Decrease) in Cash and Term Deposits During the Year		10,603	(4,787)
Cash and Term Deposits - Beginning of Year		14,489	19,276
Cash and Term Deposits - End of Year		$25,092	$14,489

Consolidated **Statements of Segregated Funds**

(in thousands of dollars)

As at December 31

	2002	2001
Net Assets		
Investments:		
Bonds	$73,790	$ 99,679
Stocks	41,099	60,407
Pooled funds	131,669	76,847
Mortgages	6,518	5,591
Cash and term deposits	5,926	22,425
Accrued investment income	826	1,326
Other	19	6
	259,847	266,281
Liabilities	400	221
Participants' equity	$259,447	$266,060

Year ended December 31

	2002	2001
Change in Net Assets		
Net Assets – Beginning of Year	$266,060	$278,040
Net contributions:		
Contributions	37,574	26,243
Withdrawals	(30,277)	(20,088)
	7,297	6,155
Investment income:		
Change in value of investments	(9,352)	(15,207)
Interest and dividends	9,728	8,529
Realized losses	(11,657)	(9,173)
	(11,281)	(15,851)
Management and administrative fees	(2,629)	(2,284)
Net Assets – End of Year	$259,447	$266,060

Notes to Consolidated Financial Statements

(in thousands of dollars)
Year ended December 31, 2002

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 Canadian 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 Canadian generally accepted accounting principles.

Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries:
Assumption Place Limited
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 is submitted to a yearly impairment test that consists of a comparison between the fair value and the carrying value. When the carrying value exceeds the fair value, the carrying value is adjusted and an impairment loss is recognized in the income statement.

Actuarial Liabilities

Actuarial liabilities regarding insurance and annuity contracts are established in accordance with the Canadian balance sheet 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 current and future income taxes. Current income taxes are based on taxable income. Future income taxes reflect the net tax effect 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, as well as revenue and expenses, are converted at the historical rate.

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 22, 19 and 15 years. The average remaining service periods of the active employees covered by the other retirement benefit plans are the same as the pension plans.

		2002	2001
Actuarial assumptions utilized to determine benefits obligation under the defined benefit plans.	Discount rate	6.25%	6.25%
	Expected long-term rate of return on plan assets	6.50 to 7.25%	7.25%
	Rate of compensation increase	3.75%	3.75%

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

3. Prior Period Adjustment

The Company has determined that income taxes payable calculated in 2001 were overstated. Consequently, the 2001 financial statements have been restated as follows:

	Increase (Decrease)
Balance sheet:	
i) Other liabilities	($1,512)
ii) Surplus	$1,512
Statement of income:	
i) Current income taxes	($1,512)
ii) Net income for the year	$1,512

4. Marketable Securities and Real Estate

	2002		2001	
	Carrying Value	Market Value	Carrying Value	Market Value
Marketable securities:				
Bonds	$273,494	$324,501	$249,473	$283,478
Mortgage pools	783	797	791	795
Investment funds	7,969	7,059	6,297	5,833
Other	2,174	2,228	2,596	2,624
	284,420	334,585	259,157	292,730
Real estate	25,622	24,067	24,816	23,720
	$310,042	$358,652	$283,973	$316,450

Ninety-one percent (91% - 2001) of the bond portfolio is comprised of bonds with an A rating or better. Government bonds represent 76% (74% - 2001) of the bond portfolio.

5. Mortgages

	2002			2001
	Recorded Investment	Allowance for Impairment	Carrying Value	Carrying Value
Mortgages:				
Non impaired				
Residential	$60,522	$–	$60,522	$77,322
Commercial	44,305	–	44,305	38,021
Impaired				
Residential	51	5	46	83
Commercial	–	–	–	1,668
	$104,878	$5	$104,873	$117,094

Investment income includes a reduction for loan impairment in the amount of $109 (a charge of $11 in 2001).

Eighteen percent (29% - 2001) of the mortgage loan portfolio is insured while 0.9% (0.8% - 2001) of the portfolio is in arrears by 90 days or more.

6. Capital Assets

	2002			2001
	Cost	Accumulated Amortization	Net	Net
Furniture and equipment	$2,218	$922	$1,296	$1,254
Software	3,550	1,339	2,211	930
Leasehold improvements	357	216	141	100
Technology projects under development	485	–	485	1,529
	$6,610	$2,477	$4,133	$3,813

Administration expenses include the amortization of capital assets amounting to $1,016 ($906 – 2001).

7. Other Assets

	2002	2001
Accounts receivable:		
Clients	$2,913	$3,324
Reinsurers	2,626	1,565
Premiums receivable	2,863	2,929
Commissions and prepaid expenses	1,840	1,692
Goodwill	135	171
Other	1,107	1,144
	$11,484	$10,825

Administration expenses include a decrease in value of goodwill amounting to $36 (amortization of $95 in 2001).

8. Actuarial Liabilities

Nature and Composition of Actuarial Liabilities

Actuarial liabilities represent the amounts that, 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 Canadian balance sheet method.

The Company operates in both Canada and the United States.

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

	2002			2001
	Canada	United States	Total	Total
Individual insurance	$128,819	$39,215	$168,034	$158,525
Group insurance	16,477	–	16,477	16,862
Individual annuities	147,164	17,804	164,968	140,490
Group annuities	17,551	–	17,551	28,103
	$310,011	$57,019	$367,030	$343,980

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

	2002				
	Marketable Securities	Mortgages	Real Estate	Other	Total
Carrying value					
Individual insurance	$153,700	$13,044	$ –	$1,290	$168,034
Group insurance	9,433	4,849	–	2,195	16,477
Individual annuities	82,057	67,082	2,818	13,011	164,968
Group annuities	5,722	7,391	–	4,438	17,551
Other, including surplus	33,508	12,507	22,804	30,044	98,863
	$284,420	$104,873	$25,622	$50,978	$465,893
Geographic:					
Canada	$213,407	$104,873	$25,622	$43,541	$387,443
United States	71,013	–	–	7,437	78,450
	$284,420	$104,873	$25,622	$50,978	$465,893
Market value					
Geographic:					
Canada	$259,299	$107,063	$24,067	$43,541	$433,970
United States	75,286	–	–	7,437	82,723
	$334,585	$107,063	$24,067	$50,978	$516,693

	2001				
	Marketable Securities	Mortgages	Real Estate	Other	Total
Carrying value					
Individual insurance	$134,049	$13,688	$ –	$10,788	$158,525
Group insurance	7,993	7,318	–	1,551	16,862
Individual annuities	73,610	55,874	–	11,006	140,490
Group annuities	9,602	13,466	2,000	3,035	28,103
Other, including surplus	33,903	26,748	22,816	13,034	96,501
	$259,157	$117,094	$24,816	$39,414	$440,481
Geographic:					
Canada	$186,894	$117,094	$24,816	$29,660	$358,464
United States	72,263	–	–	9,754	82,017
	$259,157	$117,094	$24,816	$39,414	$440,481
Market value					
Geographic:					
Canada	$220,021	$120,183	$23,720	$29,660	$393,584
United States	72,709	–	–	9,754	82,463
	$292,730	$120,183	$23,720	$39,414	$476,047

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 five 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 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:	2002	2001
Actuarial liabilities at the beginning of the year	$343,980	$329,820
Normal increase in liabilities	23,911	11,134
Changes resulting from revised actuarial assumptions	(223)	114
Currency revaluation	(638)	2,912
Actuarial liabilities at the end of the year	$367,030	$343,980

Reinsurance

In order to stabilize the results of the Company, part of the business is ceded to registered reinsurers. The maximum amount that is retained by the Company on any one insured life is $75. Reinsurance ceded does not discharge the Company of its liability towards its insureds. Therefore, failure of reinsurers to honor 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:

	2002	2001
Canada	$44,695	$40,936
United States	38	44
	$44,733	$40,980

9. Long-Term Debt

	2002	2001
Mortgage Loans		
Mortgage loans at a rate of 5.09%, maturing in April 2003 and pledging real estate	$11,035	$11,358
Others		
Loan at prime rate minus 1% without fixed repayment conditions	297	297
Other	52	52
	$11,384	$11,707

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

Years ending December 31,		
	2003	$362
	2004	$374
	2005	$392
	2006	$411
	2007	$431

10. Deferred Gains (Losses)

	2002	2001
Bonds	$959	$1,125
Mortgage pools	(114)	(179)
Real estate	(227)	(252)
Other investments	(64)	33
Foreign exchange	1,823	2,208
	$2,377	$2,935

11. 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:

	2002		2001 Restated	
Income tax at statutory rate	$3,231	37.8%	$2,875	40.7%
Increase (decrease) in the tax rate resulting from:				
Investment income tax	354	4.1	269	3.8
Large capital tax	164	1.9	133	1.9
Prior year adjustments	(295)	(3.5)	(314)	(4.4)
Permanent differences	31	0.4	(80)	(1.1)
Differences in tax rates in foreign jurisdictions	(702)	(8.2)	(570)	(8.1)
Deferred losses	–	–	(525)	(7.4)
Other	222	2.7	177	2.5
	$3,005	35.2%	$1,965	27.9%

The income tax expense charged to operations is as follows:

	2002	2001 Restated
Canadian income tax expense:		
Current income taxes	$2,274	$1,776
Future income taxes	185	156
	2,459	1,932
Foreign income tax expense:		
Current income taxes	96	77
Future income taxes	450	(44)
	546	33
	$3,005	$1,965

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

	2002	2001 Restated
Investments	$(88)	$(36)
Actuarial liabilities	1,811	1,530
Capital assets	2,453	2,302
Other	(60)	(294)
	$ 4,116	$3,502

12. Other Liabilities

	2002	2001 Restated
Accounts payable:		
Suppliers	$4,081	$2,615
Reinsurers	3,591	2,383
Other	4,789	8,003
	$12,461	$13,001

13. Employee Benefit Plans

Information about the Company's defined benefit pension plans is as follows:

Changes in accrued benefit obligation:	2002	2001
Balance at beginning of year	$16,330	$15,111
Current service cost	1,185	1,086
Interest cost	1,023	986
Benefits paid	(595)	(853)
Actuarial gain	(851)	–
Balance at end of year	17,092	16,330
Changes in plan assets:		
Fair value at beginning of year	$12,494	$12,894
Actual return on plan assets	(523)	(654)
Employer contributions	989	651
Employees' contributions	474	456
Benefits paid	(595)	(853)
Fair value at end of year	12,839	12,494
Funded status – (deficit)	$(4,253)	$(3,836)

(Continued)

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

	2002	2001
Current service cost, net of employees' contributions	$711	$630
Interest cost	1,023	986
Expected return on plan assets	(920)	(944)
Amortization of actuarial loss	106	31
Pension expense	$920	$703

Other liabilities on the balance sheet include a liability of $290 ($324 – 2001) for future employee benefits, as follows:

	2002	2001
Group insurance benefits liability	$271	$276
Pension plan liability	19	48
	$290	$324

14. 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.

15. Investment Income

	2002	2001
Earned income		
Bonds	$19,199	$17,515
Mortgages	7,988	9,390
Real estate, net amount	2,479	2,495
Investment funds	187	98
Mortgage pools	50	48
Other	967	1,413
	30,870	30,959
Amortization of deferred realized gains and losses and recognition of unrealized gains and losses		
Bonds	213	386
Stocks	(172)	(88)
Mortgage pools	(64)	(67)
Real estate	(196)	(148)
	(219)	83
Investment expenses	(873)	(707)
	$29,778	$30,335

16. Additional Information on the Statement of Cash Flows

Cash flows related to operating activities include the following elements:	2002	2001
Interest paid on financing	$685	$916
Income taxes paid	$2,216	$2,714
Dividends paid	$225	$315

17. Bank Loans

The Company has authorized credit margins totaling $2.5 million and bearing interest at the bank's base rate. These bank loans are renewable annually and are not guaranteed.

18. 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. In reference to the guideline imposed by the Office of the Superintendent of Financial Institutions of Canada (OSFI), the Company maintains a ratio above the minimum requirement of 120%.

As of December 31, 2002, the Company's ratio is approximately 203% (179% in 2001). This level means that the Company has sufficient capitalization to face unexpected negative results of approximately $24 million ($18 million in 2001) 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 unfavorable 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.

19. 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:

	2002			2001		
	Premiums	Investment Income	Assets	Premiums	Investment Income	Assets
Individual Insurance	$19,154	$9,696	$128,819	$18,062	$9,299	$117,450
Group Insurance	22,537	1,369	16,477	21,830	1,426	16,862
Financial Services	33,320	10,958	164,715	17,368	11,309	149,793
Other	–	3,420	77,432	–	3,462	74,359
Canadian Total	75,011	25,443	387,443	57,260	25,496	358,464
United States	1,203	4,335	78,450	1,098	4,839	82,017
	$76,214	$29,778	$465,893	$58,358	$30,335	$440,481

20. Foreign Exchange

All liabilities in United States dollars are matched with assets of the same currency. 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.

21. Comparative Figures

Certain 2001 comparative figures have been reclassified in order to conform with the presentation adopted for the year ended December 31, 2002.

A Recognition of Excellence

Congratulations to all employees who went above and beyond in 2002!

President's Award:
Anne Blanchard
Rehabilitation Advisor
Group Admintration

Management Award:
Martin Boudreau
Vice-President - General Manager
Louisbourg Investments Inc.

Volunteer Award:
Nicole Belliveau
Administrative Analyst
Human Resources

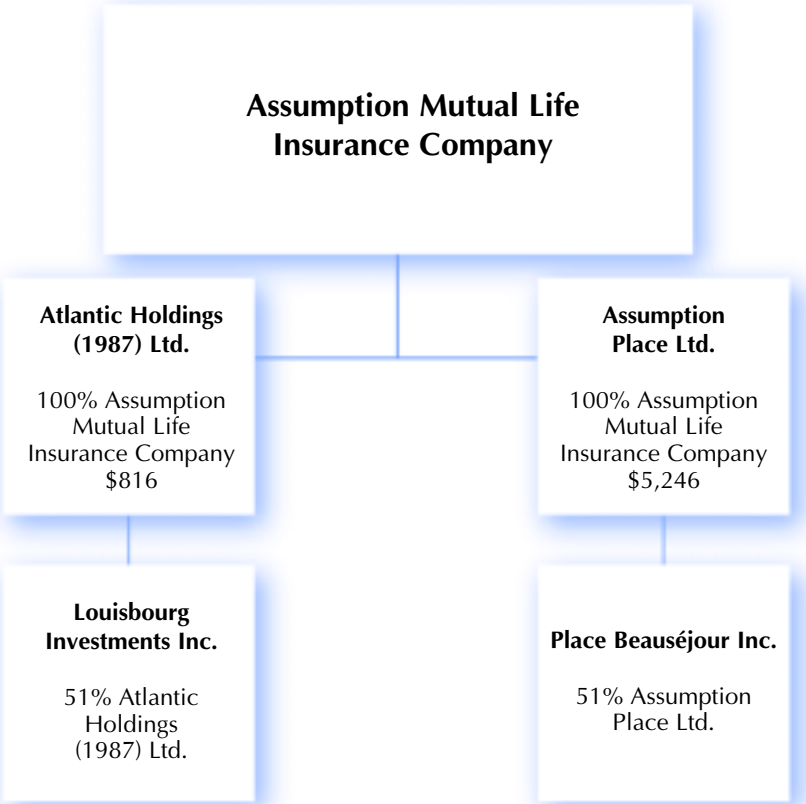
Customer Service Award:
Nancy Aubé
IT Technician and Operation Support

Monique Bastarache
Supervisor, Marketing Administration

Marie Cormier
Payroll Clerk
Human Resources

Charles Gervais
Legal Counsel

Fernande Goguen
Mortgage Loans Officer



% value = percentage of voting rights held
$ value = book value (in thousands of Canadian dollars)

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