Annual Report 2003

We're Worth our Weight

INDUSTRIAL ALLIANCE
INSURANCE AND FINANCIAL SERVICES INC.

We're Worth our Weight...

An insurance and financial services company

Industrial Alliance offers a complete range of insurance, savings and retirement products that are designed to meet clients' needs in terms of insurance protection and financial security.

A company at the service of individuals and groups

We offer products and services that are tailored to the needs of individual clients as well as to the specific requirements of various businesses and groups.

A century old company

Since its creation in 1892, Industrial Alliance has readily adapted to the ever-changing needs of its clientele while also growing steadily by applying sound financial management.

A Canada-wide company

Thanks to its dynamic approach, Industrial Alliance has become a successful financial group of nationwide importance – the Industrial Alliance Group – which is present across Canada through its various subsidiaries.

A company with multiple distribution networks

Industrial Alliance stands out through the breadth and diversity of its distribution networks, which are composed of career agents, insurance brokers, securities brokers as well as alternative distribution channels.

A growing company

Our ambitious growth objectives, which we have achieved and sometimes even surpassed over recent years, have allowed us to increase our market share and occupy an enviable position in the industry in each of our lines of business.

A profitable company

Since its demutualization in February 2000, Industrial Alliance has obtained constant and high returns, thereby providing shareholders with ever increasing value for their investments.

A solid company

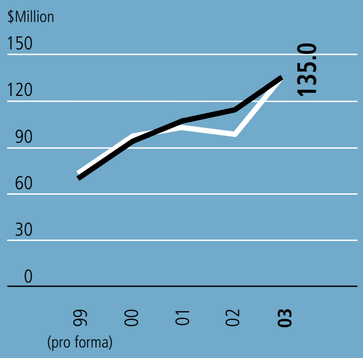
For many years, rating agencies have assigned Industrial Alliance credit ratings that are a clear reflection of the Company's financial solidity. These ratings, which have been continually renewed, provide added peace of mind to all those who place their trust in us.

A large-scale company

The sixth largest life and health insurance company in Canada, the Industrial Alliance Group insures over 1.7 million Canadians, employs more than 2,400 people and manages and administers $20 billion in assets.

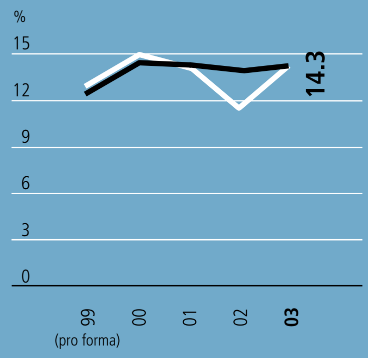
A Profitable and Growing Company

Shareholder Net Income



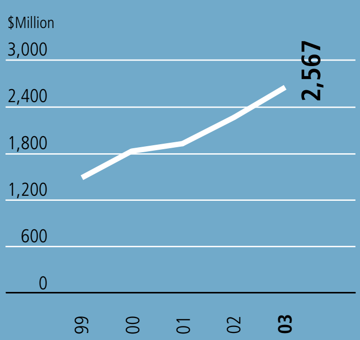
■ Adjusted for comparison purposes. See note on page 18.

Return on Equity

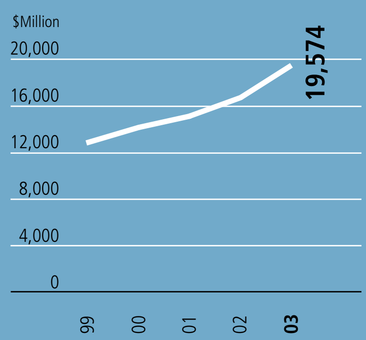


■ Adjusted for comparison purposes. See note on page 18.

Premium Income[1]



Assets Under Management and Under Administration



[1] Gross premiums and deposits, excluding the Canadian Medical Association from 1999 to 2001.

Summary

Highlights of 2003

- Record profit of $135 million
- 14.3% return on equity
- 10% growth in premium income
- 17% growth in assets under management and under administration
- Entry in the world of mutual funds manufacturing through the acquisition of Co-operators Mutual Funds (now known as Industrial Alliance Mutual Funds)
- Enhancement of our distribution capacity in the wealth management sector through two acquisitions: Global Allocation and FundEX (beginning of 2004)
- Launch of a new Canada-wide strategy to market all Group Insurance employee plan products and services under a single brand name
- Successful issue of $150 million of innovative tier 1 capital
- Continued launch of innovative and competitive products

Message from the Chairman of the Board of Directors

RAYMOND GARNEAU
CHAIRMAN OF THE BOARD

I would like to begin by congratulating all Industrial Alliance Group managers, representatives and employees, on behalf of the Board of Directors, for the Company's excellent performance in 2003. It was indeed a prosperous year for the Group, with net income reaching a new high and operations continuing to grow across the country.

The Company's reputation as one of the best providers of financial services to individuals and businesses in Canada could not have been achieved without the dedication and commitment to excellence of all Company personnel. As the theme of this year's annual report states, "We're worth our weight." We have what it takes to continue to prosper, and we strive to do so in the interest of our clients, our business partners and our shareholders.

A CULTURE OF DIALOGUE AND TRANSPARENCY

As with all human endeavours, the success of an organization depends on a combination of several factors. Every member has a role to play in this success; as Board members, our role is to implement a corporate governance system that is both sound and efficient, founded on principles that promote dialogue and transparency.

At Industrial Alliance, we believe that the most important factor in achieving the highest standards of corporate governance, beyond the rules themselves, is the quality of the Board of Directors.

For this reason, when choosing directors, the Board seeks candidates based on their integrity, motivation, competency and skills. The worth of the Industrial Alliance Board of Directors arises from the quality of its members and their complementary backgrounds. The culture of dialogue that exists, both within the Board and between the Board members and Company management, fosters frank discussions about the Company's operations, thereby ensuring efficient and exemplary corporate governance practices.

At Industrial Alliance, in the interests of transparency, ethics and honesty, we decided a long time ago to go beyond simple compliance with the regulatory framework and the increasingly strict standards that govern public companies in Canada. We do this by taking a proactive approach to the regulatory framework by continually examining and improving our standards of practice.

For instance, two years ago we introduced a formal evaluation process whereby all directors are asked to evaluate both the performance of the President and CEO and that of the Board. This process is conducted by the Chairman of the Board and the Chairman of the Human Resources and

Corporate Governance Committee through questionnaires and meetings with the directors, in accordance with a well-defined work plan.

The performance of the President and CEO, whose role was separated from that of the Chairman of the Board in 2000, is evaluated based on quantitative objectives established at the beginning of the year. This evaluation also includes a qualitative assessment that is carried out by all directors according to seven pre-defined criteria. Note that of the fifteen Board members, the President and CEO is the only one who is part of the Company's management.

In keeping with the past few years, the Board once again held a full-day meeting to discuss the Company's strategic plan. The Board also devoted considerable time to analyzing acquisition projects, particularly in the area of wealth management, as well as discussing more general subjects like investment policies, sound financial practices, capital management and human resources issues, including succession planning.

In 2003, a number of improvements were made to enhance disclosure and ensure stricter corporate governance rules, with a view to protecting the Company's integrity. One such improvement was the adoption of a financial information disclosure policy at the beginning of 2003, and the review of our insider-trading policy. Moreover, the principles of the Company's code of ethics and rules of professional conduct were extended to all members of the Board. Each director received a copy of the various policies and signed a declaration of compliance.

We also redefined the mandate of all Board committees at the beginning of 2003 to better reflect the new regulatory and corporate governance requirements.

In addition, the Board of Directors closely examined the Corporate Governance Guidelines adopted by the Toronto Stock Exchange, and feels that the Company is in compliance with the recommendations contained in these guidelines.

All regular Board meetings now include a period of discussion without management being present. These discussions focus on such strategic subjects as long-term planning, management succession planning, the evaluation of the Board, and the performance and compensation of the President and CEO.

At the annual meeting, directors are now elected through a separate vote by the shareholders or participating policyholders, as the case may be. Starting this year, all directors with an expiring term of office will be elected for a period of one year.

In addition to the directors' attendance at Board meetings, the information circular now indicates their presence at meetings of the committees they were members of for the financial year ended December 31, 2003. The Industrial Alliance Board of Directors held eight meetings in 2003, and the various committees met 22 times. These meetings had an attendance rate of almost 90%.

This year, in keeping with the new orientations concerning the role of audit committees, our Audit Committee reviewed and approved the annual management's discussion and analysis, in addition to approving the annual and quarterly financial statements, as well as the quarterly management's discussion and analysis and news releases.

The information circular contains more detailed information on the Company's corporate governance practices, including the disclosure of auditors' fees, details on the stock option plan and on policies that encourage directors and require certain executive officers to hold common shares in the Company. Note that a few years ago, the Board decided not to grant options to directors under the stock option plan for management and employees.

New Board Member

In May 2003, the Board welcomed a new member: Mary C. Arnold. Ms. Arnold is an accountant and a Fellow of the Institute of Chartered Accountants (FCA). She is actively involved in the Institute and has expertise in corporate governance and as an audit committee member. She is already a member of our Audit Committee. As a native of Western Canada, Ms. Arnold is a testimonial to Industrial Alliance's presence in that region, and to the Company's desire to pursue its expansion in all regions of the country.

Appreciation

In closing, I wish to thank the members of the Board of Directors for their ongoing support, sound advice and good judgment. I also wish to thank the members of management for their dedication, and for constantly striving to make Industrial Alliance a leader in its field in Canada. Lastly, I wish to thank all Industrial Alliance Group representatives and employees for their commitment to the success of our organization.

Raymond Garneau

Board of Directors

Raymond Garneau
O.C., M.C.Sc., L.E.Sc.

Chairman of the Board since 1996 and board member since 1988

■ ● ◆ ▼

Master's degree in commercial sciences and a license in economic sciences ▪ Served as Executive Secretary under Quebec Premier Jean Lesage, was a member of the Quebec National Assembly, served as Quebec Finance Minister, President and Chief Executive Officer of the Laurentian Bank and a member of Canada's House of Commons ▪ Appointed President and Chief Operating Officer of Industrial Alliance in 1988 and then President and Chief Executive Officer in 1991, a position he held until 2000

Board member of MAAX, the Canadian Life and Health Insurance OmbudService, TSX Group and various Industrial Alliance Group subsidiaries

Gilles Laroche
Eng.

Vice-Chairman of the Board since 1998 and board member since 1994

■ ◆

Engineer by profession ▪ Pursued a lifelong career at Telus Quebec, where he served as President and Chief Executive Officer from 1991 to 1999

Board member of Université du Québec

Mary C. Arnold
FCA

Board member since 2003

▲

Accountant by profession ▪ Worked for Price Waterhouse and served as an associate member of the Arnold Consulting Group ▪ Currently President of Richford Holdings, an investment consulting firm ▪ Active member of the Canadian Institute of Chartered Accountants on both a provincial and national scale ▪ Has expertise in corporate governance and as an audit committee member

Board member of EPCOR Utilities, the Canada Pension Plan Investment Board and the Credit Union Deposit Guarantee Corporation

Francesco Bellini
O.C., Ph.D., G.U.

Board member since 1998

▼

Researcher by profession ▪ Chairman of the Board and Chief Executive Officer of Neurochem, a company specializing in the development of therapeutic drugs for the central nervous system

Chairman of the Board of Picchio Pharma, Picchio International, Adaltis and Innodia ▪ Board member of Molson

Louis Bernard
O.Q., B.A., LL.L., M.A., Ph.D.

Board member since 1999

■ ▲

Lawyer by profession ▪ Occupied several key high level positions in the Quebec public service ▪ Served as Executive Vice-President and Secretary of the Laurentian Bank of Canada until 1999

Board member of Place des Arts and the Montreal Museum of Fine Arts

Pierre Brodeur

Board member since 1999

● ◆

Worked for many years in the product distribution sector for companies such as Videotron, Steinberg and Weston ▪ Served as President and Chief Executive Officer of Sico until 2003

Chairman of the Board of Commensal ▪ Vice-Chairman and board member of Sico ▪ Board member of Van Houtte and Biogentis

Yvon Charest
F.S.A., F.C.I.A.

Board member since 1999

■

Bachelor's degree in actuarial sciences ▪ Fellow of the Canadian Institute of Actuaries and the Society of Actuaries (1981) ▪ Joined Industrial Alliance in 1979 ▪ Occupied various management positions in Actuarial Services, Administration and Strategic Planning ▪ Appointed President and COO in 1999 and President and CEO in 2000

Serves on the Board of Directors of Industrial Alliance *Pacific*, National Life, Industrial Alliance Auto and Home Insurance and MD Life

Secretary of the Board
Georges Smith, LL.L., F.C.G.A.

Assistant Secretary
Jennifer Dibblee, B.Sc., B.C.L., LL.B.

ANNE DUTIL
Adm., B.A., B.Com.C.

Board member since 1996

▲

Degree in administrative sciences ▪ Pursued a career as a corporate executive in the manufacturing sector, including at Procycle Group ▪ Currently the senior executive of a real estate company

Board member of Placements Lacroix Dutil, Microtec and Fonds d'assurance de responsabilité professionnelle de l'Ordre des dentistes du Québec

MICHEL GERVAIS
O.C., O.Q., Ph.D.

Board member since 1997

▲

Professor at Laval University for most of his career where he also served as Rector from 1987 to 1997 ▪ Presided over various national and international organizations ▪ Executive Director of the Centre hospitalier Robert-Giffard, a university mental health institute, since 2000

Vice-President of the Canadian Foundation for Innovation ▪ Board member of Guillevin International

LISE LACHAPELLE
B.B.A.

Board member since 1995

■ ◆

Economist by profession ▪ Pursued a career at the federal Ministry of Industry and International Commerce as Assistant Deputy Minister ▪ Appointed Senior Vice-President of the Montreal Stock Exchange ▪ Served as President and Chief Executive Officer of the Canadian Pulp and Paper Association from 1994 to 2002 ▪ Currently working as a corporate strategy consultant

Board member of Abitibi-Consolidated, Russel Metals, Mirabaud Canada, Innergex Power Income Fund and BNP Paribas (Canada)

JOHN LEBOUTILLIER
C.M., LL.L., M.B.A.

Board member since 1997

■ ●

Lawyer by profession with an M.B.A. ▪ Worked for Price Company before serving as President and Chief Executive Officer at Sidbec-Dosco from 1983 to 1996 and at the Iron Ore Company from 1996 to 2000 ▪ Currently President and Chairman of the Board at Mazarin, a company operating in the chrysotile sector

Chairman of the Board of Intellium Technologies ▪ Board member of Novamerican Steel, Shermag, Société Asbestos, McWatters Mining and the Société générale de financement du Québec

FRANCIS P. MCGUIRE

Board member since 2001

▼

Career director ▪ Occupied several high level positions in the New Brunswick public service ▪ Joined MITI Information Technology in 1998 ▪ President and Chief Executive Officer of Major Drilling Group International, an international drilling company, since 2000

Board member of Kelman Technologies and Major Drilling Group International

JIM PANTELIDIS
B.Sc., M.B.A.

Board member since 2002

●

Bachelor's degree in sciences and an M.B.A. ▪ Spent a large part of his career in the petroleum sector working for companies such as Gulf Canada and Petro-Canada, where he served as Executive Vice-President ▪ President and Chief Executive Officer of the Bata Shoe Organization between 1999 and 2001 ▪ President of J.P. & Associates, a strategic consulting group, since 2002

Chairman of the Board of Consumers' Waterheater Income Fund and FisherCast Global Corporation ▪ Board member of the Parkland Income Fund

DAVID R. PETERSON
P.C., Q.C., LL.D.

Board member since 1991

Lawyer by profession ▪ Elected to the Ontario Legislative Assembly where he served as Premier from 1985 to 1990 ▪ Subsequently became CEO of Cassels Brock & Blackwell LLP, a Toronto-based law firm

Board member of Rogers Communications, Rogers AT&T Wireless, BNP Paribas (Canada), Ivanhoe Cambridge and the Inscape Corporation

GUY SAVARD
C.M., FCA

Board member since 1995

■ ●

Chartered accountant ▪ Worked for several national accounting firms before embarking on a career in the fund management sector and then as an investment banker ▪ Served as President of the Caisse de dépôt et placement du Québec ▪ Currently Chairman and Vice-Chairman of the Board of Merrill Lynch Canada's Quebec operations

Board member of Merrill Lynch Canada

■ Executive Committee
● Investment Committee
▲ Audit Committee
◆ Human Resources and Corporate Governance Committee
▼ Ethics Committee

President and Chief Executive Officer's Report

Yvon Charest
President and Chief Executive Officer

Industrial Alliance had another prosperous year in 2003.

We set a new Company record in terms of shareholder net income and obtained a return on equity of more than 14%.

Premium income grew by 10%. The stock market recovery gave a boost to our Individual Annuities sector and we implemented additional components of our growth strategy in the wealth management sector by acquiring two new companies and by increasing our ownership in a third.

We launched our new Canada-wide marketing strategy in the Group Insurance employee plans sector to use a single brand name throughout Canada.

We successfully issued $150 million in innovative tier 1 capital.

We have remained at the forefront in the development of innovative products that are adapted to the new demographic and economic realities.

These achievements were made in a more demanding environment than ever: new companies—and not the smallest players—merged their operations during the year and intense pressure on pricing continued.

In this environment, perhaps our greatest achievement was to successfully maintain our profit margins and market shares, while actively pursuing our development strategy. We have thus remained among the top players in Canada, particularly in the individual insurance and annuities sectors, where we are among the leaders in the country.

We owe this success to a strategy that rests on several strengths: the size and diversity of our distribution networks, our ability to manage and grow these networks effectively, the scope of our product line, our ability to innovate and stand out in an increasingly competitive market and, perhaps most of all, the sustained efforts of our representatives and employees who, like us, are committed to the organization's success.

Like the theme of our annual report states: "We're worth our weight." We're worth our weight because we have the size, we have the diversity, we have the depth and, perhaps above all, we have an unfailing desire to succeed.

PROFITABILITY

Industrial Alliance set a new record in 2003 by recording shareholder net income of $135.0 million, an increase of 39% over the previous year. This result translates into diluted earnings per share of $3.42 and a 14.3% return on equity. This rate of return is within the Company's 13% to 15% target range.

PROFITABILITY

	Shareholder Net Income ($Million)	Diluted Earnings Per Share ($)	Return on Equity (%)
2002			
Including Teleglobe	97.4	2.57	11.8
Excluding Teleglobe	116.8	3.09	14.0
2003	**135.0**	**3.42**	**14.3**

Note that the Company's 2002 shareholder net income was affected by a $19.4 million (after-tax) provision taken to cover the Company's bond holdings in Teleglobe. Without this provision, the adjusted shareholder net income for 2002 would have been $116.8 million ($3.09 diluted per share) and the 2003 result would have represented a 16% increase in net income over the previous year.

The stock market recovery in 2003 gave a boost to our wealth management operations (particularly in the Individual Annuities sector) and the income on capital. At the same time, the insurance sectors obtained good mortality results. All our lines of business recorded better results than in 2002. Also note that the excellent results in 2003 were obtained in spite of an increase in the new business strain, which is, in a way, an investment in new business.

Shareholder net income has almost doubled since 1999, and demonstrates the Company's resilience during the tough equity markets in the last few years. This was due in large part to the growth and profitability of our in-force block of business, the diversity of our profit sources and the exceptional quality of our investments.

We also increased our dividend during the year. In the first three quarters of 2003 we paid a dividend of $0.17 per common share, and $0.19 in the fourth quarter. These dividends represent a total amount of $27.2 million. We therefore paid out 20.4% of the shareholder net income in dividends in 2003. Our dividend policy provides for the payment of a dividend representing between 20% and 30% of the net sustainable earnings and one that is comparable to that of the other demutualized Canadian insurance companies.

BUSINESS GROWTH

The year ended on a strong note with respect to business growth. The growth in sales at the end of the year and the good business persistency rate boosted premium income to $2.6 billion for 2003, which is 10% higher than the previous year. Premiums are up in all sectors.

Assets under management and under administration almost reached the $20 billion mark in 2003, totalling $19.6 billion as at December 31, 2003, a 17% increase over the last twelve months. Five factors contributed to this increase: strong premium growth, which includes the transfer of the second block of business from National Bank Trust; the growth of the Company's mutual fund distribution subsidiary, Investia, whose assets reached the billion dollar mark at the end of 2003, due in part to the integration of the Global Allocation business; the contribution by the Company's new mutual fund management subsidiary, Industrial Alliance Mutual Funds, which began operations in the last part of the year; the growth of the Company's new securities subsidiary, Industrial Alliance Securities, which ended its first complete year of operations with $450 million in assets; and the upswing in the stock markets.

Today, assets under management and under administration are almost double what they were five years ago, which shows the degree to which we have been able to grow our business across the country.

In spite of a very strong fourth quarter, sales growth was somewhat slower than usual in 2003. Our results for the year can be explained by the fiercely competitive market, the lack of activity in certain market segments and our desire to find a fair balance between growth and profitability. Even though certain sectors failed to achieve our sales growth objective of "industry +5%" in 2003 (we do not yet have all industry data for 2003), we have generally achieved this objective over the last five years, particularly in the Individual Insurance sector, which generates about half of the Company's net earnings.

BUSINESS GROWTH
SALES

	2003 Growth	Five-Year Growth	
	IAG	IAG[1]	Industry
Individual Insurance	**(3%)**	10%	5%
Individual Annuities	**12%**	6%	2%[2]
Group Insurance			
Employee Plans	**(42%)**[3]	10%	9%
Creditor Insurance	**4%**	60%	n/a
Special Markets Group	**9%**	33%[4]	n/a
Group Pensions	**1%**	29%	7%[2]

[1] Excluding the amounts paid under the agreement with the Canadian Medical Association from 1999 to 2001.

[2] Based on the assumption that the industry growth rate for 2003 is equivalent to that of the Industrial Alliance Group.

[3] 28% growth excluding the Bombardier contract.

[4] Four-year growth.

Note that sales measure a life insurance company's ability to underwrite "new business." The concept of sales differs from that of premiums in that sales only take into account the amounts received for new business, while premiums take into account the amounts received for new business and the amounts collected for the renewal of insurance policies sold in previous years.

Below are a few comments on the growth of sales for each line of business:

Individual Insurance — The year can be divided into two phases for the Individual Insurance sector: a rather gloomy first half, when the market was still feeling the effects of the recent years' poor stock market performances, and a very solid second half, marked by a recovery in sales in the last two quarters.

The growth recorded in the second half of the year was not sufficient however to offset the lagging results of the first half. As a result, the year ended with $128.7 million in sales, 3% lower than the previous year's result. This performance is roughly in line with results for the industry, where sales were down 1% in 2003. Our market share for individual insurance sales has consistently been above 10% for the last few years. In 2003, our market share was 11.9%, ranking us fourth in Canada in this regard.

Individual Annuities — It was a good year for the Individual Annuities sector, as segregated fund growth capitalized on the stock market recovery in mid-year and we pursued our growth strategy in the wealth management sector.

Sales totalled $658.7 million in 2003, a 12% increase over the previous year. The sector's favourable performance is primarily attributable to the popularity of our new family of hedge funds and our guaranteed products, including the Principal Guaranteed with an Alternative Investment (PGA). The excellent performance of our segregated funds also contributed to the sector's favourable results. Moreover, investors appreciate the capital guarantee at maturity and at death offered by these funds.

With respect to achievements, we succeeded in implementing several additional components of our growth strategy in the wealth management sector through three acquisitions: Global Allocation Financial Group, a mutual fund dealer, which was merged with Investia, our mutual fund distribution subsidiary; FundEX, another mutual fund dealer, for which we obtained regulatory approval to increase our ownership from 25% to 75%; and Co-operators Mutual Funds Limited, a mutual fund manufacturer, which was renamed Industrial Alliance Mutual Funds. This latter acquisition will enable us to manufacture our own line of mutual funds, which was one of our strategic objectives in this sector.

Several aspects of our growth strategy are now in place: we have the capacity to offer and manufacture our own insurance products, annuity contracts, segregated funds, mutual funds and securities, and we can distribute these products through multi-channel networks, including our traditional insurance and annuity networks (Career and insurance brokers networks) as well as new networks acquired over the last few years in the mutual funds and securities sectors.

Group Insurance: Employee Plans — After a record year in terms of business development in 2002 with the signing of the largest contract in the Company's history (Bombardier), Group Insurance Employee Plan sales returned to a more normal level in 2003. Sales totalled $53.3 million, down 42% from the previous year (but up 28% if we exclude the Bombardier contract).

Strong sales and good business persistency over the last few years caused premium income to double in the last five years, surpassing the $500 million mark in 2003 to reach $525.2 million. This represents a 24% increase over the previous year.

Among our main achievements, in accordance with our new marketing strategy, on January 1, 2004 we began marketing all Industrial Alliance Group employee plan products and services under a common brand name, that of Industrial Alliance. This strategy aims to strengthen the brand name recognition and positioning of the Industrial Alliance name on the Canadian group insurance market and facilitate our penetration throughout Canada.

Group Insurance: Creditor Insurance — Group Creditor Insurance sales continue to grow consistently. In spite of low car sales, creditor insurance sales were up 4% for the year, reaching $130.1 million in 2003. We continue to be the leader in automobile creditor insurance, with over 40% of the Canadian market.

Group Insurance: Special Markets — It was also a good year for the Special Markets Group (SMG) sector, which continued to profit from strong sales in 2002. Net premiums totalled $71.5 million for 2003, an increase of 9% over 2002.

Group Pensions — Significant fund in-flows in the fourth quarter enabled the Group Pensions sector to end the year with $568.8 million in sales, which is 1% higher than the previous year. However, this figure does not do justice to this sector, which is subject to strong fluctuations from one year to the next due to the size of the plans involved, which can sometimes be quite large. Therefore, even though sales grew only marginally during the year, funds under management grew 24% during the same period, reaching $3.7 billion as at December 31, 2003. Three factors contributed to this growth: the transfer of the second block of business from National Bank Trust, the strong increase in new plan sales and the upswing in the stock markets.

DEVELOPMENT STRATEGY

As we alluded to earlier, the environment in which life and health insurance companies are evolving has gone through numerous changes in the last few years. Industry consolidation is probably the one that has drawn the most attention from observers recently, as several major players have merged their operations.

Considering the Company's more modest size as compared to the country's three biggest insurers, a number of observers have reflected on Industrial Alliance's ability to hold its own as well as it has in the past. To these people, I would say the following:

First, consolidation in the life insurance industry is far from being a new phenomenon. Since joining Industrial Alliance just after I graduated, almost 25 years ago, I have witnessed about 50 mergers and acquisitions between insurance companies in Canada. During this period, I have also seen a number of foreign insurance companies abandon the Canadian insurance market, unable to carve out a satisfactory place for themselves in the market. During this time, Industrial Alliance has continued to grow and prosper in the areas that it knows best: insurance and financial services.

Second, and perhaps even more importantly, to succeed in life insurance, an organization needs a well-designed, well-thought-out and well-executed strategy that is adapted to its size. Not to say that Industrial Alliance has a recipe that others do not, but we do believe we have all the ingredients of a winning strategy.

We believe four fundamental elements are needed to succeed in life insurance:

- *Excel in one functional skill: distribution* — To succeed in life insurance, we believe that an organization must excel in one functional skill. For Industrial Alliance, this skill is distribution. We have chosen to excel in this skill—or at least sought to excel—because we believe that representatives have a decisive influence on consumers when it comes to buying life insurance.

  In fact, unlike most of the numerous other products offered in the market, we believe that life insurance is a product that is "sold" rather than "bought." This is one of the most firmly rooted paradigms in the industry. Moreover, life insurance is a complex product that must be sold by well-trained professionals.

  Considering the challenges involved in selling insurance products, our strategy has always been to build solid, multi-channel and competent distribution networks. Our success in this area has always come from treating representatives like professionals, and never taking them for granted. We treat them as though we need to earn their trust every day. We listen to what they have to say, and we do everything we can to help them achieve their own success.

  In short, we are definitely seeking to make distribution a permanent competitive advantage for Industrial Alliance.

- *Build dominant positions in chosen markets* — To be successful, we also believe we have to maintain a dominant position in chosen markets and in most of our markets, we do have a dominant position.
  - For example, in Individual Insurance, we have consistently maintained a market share above 10% in Canada with respect to sales, and we have a firm leadership position in the industry.
  - In Individual Annuities as well, for the segregated funds market, for many years we have consistently obtained a market share above 10% with respect to net sales in Canada.
  - In Group Creditor Insurance, we are ranked number one in Canada in the automobile dealers market, with a market share of over 40%.
  - In Group Insurance Employee Plans and Group Pensions, we are a dominant player in Quebec in our target market of small- and medium-sized businesses, and our market shares are growing outside Quebec, where we are seeking to "export" the expertise acquired in our local market.
  - From a geographical standpoint, we definitely have a dominant position in virtually all sectors in Quebec, be they insurance or annuities on an individual or group basis.
- *Stake out a position less vulnerable to head-to-head competition* — To be successful, we also believe that we have to seek to stand out from the competition and avoid competing on price alone. Our product portfolio is a key factor in this area. To succeed, not only are we developing a wide range of competitive and profitable products, we also strive to develop innovative products. We believe that innovative products that meet the real needs of consumers will facilitate sales and favour representative retention.

Industrial Alliance Group

FINANCIAL OBJECTIVES

- Profitability: 13% to 15% return on equity
- Business growth: growth of sales five percentage points higher than that of the industry in all lines of business

STRATEGY

- Excel in one functional skill: distribution
- Build dominant positions in chosen markets
- Stake out a position less vulnerable to head-to-head competition
- Exploit industry changes

MARKET OPPORTUNITIES

- Individual Insurance
  - Distribution: constantly strengthen our multi-channel distribution networks by attracting new distributors and becoming their insurer of choice
  - Products: remain at the forefront in the development of innovative, competitive products that are adapted to the new demographic and economic realities
- Individual Annuities
  - Growth: pursue, indeed accelerate, our growth in all wealth management sectors, including segregated funds and mutual funds
- Group Sectors
  - Geographic expansion: accelerate our development, particularly outside Quebec, in order to be recognized in these sectors as a Canada-wide company, on the same footing as the individual insurance and annuities sectors
  - Expansion by segments: increase our penetration in our target market of small- and medium-sized businesses, as well as in the automobile group creditor insurance and special risks sectors

To get an idea of how much effort we devote to product development, I invite you to read the texts concerning the various sectors in this annual report. You will find numerous examples of innovative products that have helped us to stand out from the competition.

But to avoid competing solely on price, we are also looking to specialize in markets that are often neglected by other insurers, and where there is a possibility to grow and reach our profitability objectives. This is why we target the small- and medium-sized business market in the Group Insurance Employee Plans and Group Pensions sectors.

This is also why we are seeking to develop certain segments that are not well served by traditional insurance products, such as the special risks market, or that require specific expertise, such as the Group Creditor Insurance automobile dealers market. Industrial Alliance has established very enviable positions in these market segments.

- *Exploit industry changes* — Finally, to succeed in life insurance, we believe that a company must be able to take advantage of all new trends in the market and develop all new markets that may appear.

  In fact, this is mainly where our strategy for our wealth management sector originated. We are seeking to develop all financial services sectors, including segregated funds, mutual funds (which represents a market ten times bigger than the segregated funds market, and where we are a new player), securities and other segments.

  This is also why we want to expand outside Quebec in the group sectors. We want to be recognized as a national player in these sectors, on the same footing as the individual insurance and annuities sectors.

Financial Objectives

We are confident that our strategy will enable us to pursue our growth and expansion throughout Canada and in all lines of business. That is why we are maintaining the two major financial objectives that we set in the last few years:

- To obtain a return on equity between 13% and 15%.
- To achieve sales growth that is five percentage points higher than that of the industry in all sectors.

Changes in Senior Management

Before concluding this report, I would like to touch on a few changes in senior management that were announced at our National Life Assurance Company of Canada subsidiary at the beginning of March 2004.

Vincent P. Tonna stepped down as President and Chief Operating Officer of National Life at the beginning of March 2004 to pursue new professional challenges after a 22-year career with the company. Mr. Tonna played a major role in Industrial Alliance's acquisition of National Life in 1988 and his leadership contributed significantly to the Industrial Alliance Group's development activities outside Quebec and in the high-end market. Mr. Tonna had served as President and COO at National Life since 1990.

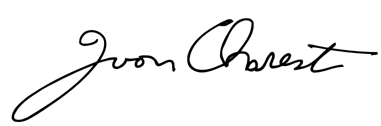
René E. Trudeau will replace Mr. Tonna as head of National Life in the capacity of Executive Vice-President and Chief Operating Officer. Mr. Trudeau, who has worked at National Life for 34 years, has served as Senior Vice-President and Chief Actuary since 1989. Over the years, Mr. Trudeau has occupied a number of senior management positions in Actuarial Services, Finance and Taxation. Mr. Trudeau will also replace Mr. Tonna on the Planning Committee that is composed of the top five executives of the Industrial Alliance Group.

Conclusion

I would like to conclude by saying that, at Industrial Alliance, we have always tried to develop a winning corporate culture that is founded on lasting values. These values are based on five key principles: team work, a high-performance environment, ongoing improvement, respect of individuals and representatives and a service mentality.

The success of an organization is not achieved overnight. It is a lengthy process that requires the collaboration and commitment of all representatives and employees. Industrial Alliance has always been successful in meeting the challenges that have come its way, and I am convinced that we will continue to meet those that will inevitably arise in the future.

Thank you to everyone.



The Industrial Alliance Group
Planning Committee

147 YEARS OF EXPERIENCE AT YOUR SERVICE

YVON CHAREST
F.S.A., F.C.I.A.

President and Chief Executive Officer
Industrial Alliance

Industry experience:
24 years

B.A. in actuarial sciences, Laval University, Quebec City, Quebec (1979) ▪ Fellow of the Canadian Institute of Actuaries and the Society of Actuaries (1981) ▪ Joined Industrial Alliance in 1979 ▪ Occupied various management positions in Actuarial Services, Administration and Strategic Planning ▪ Appointed President and CEO in 2000

Serves on the Board of Directors of Industrial Alliance, Industrial Alliance *Pacific*, National Life, Industrial Alliance Auto and Home Insurance and MD Life

JOHN B. GILL
M.B.A.

President
Industrial Alliance *Pacific*

Industry experience:
25 years

B.App.Sc. in engineering, University of British Columbia, Vancouver (1966) and M.B.A. from the University of Western Ontario, London, Ontario (1969) ▪ Joined the Industrial Alliance Group in 1978 ▪ Occupied various management positions, mainly in Finance and as Treasurer ▪ Appointed President of Industrial Alliance *Pacific* in 1982

Serves on the Board of Directors of Industrial Alliance *Pacific* and Industrial-Alliance *Pacific* General Insurance Corporation ▪ Serves on the Board of Governors of the Business Council of British Columbia

RENÉ E. TRUDEAU
F.S.A., F.C.I.A., M.A.A.A.

Executive Vice-President and Chief Operating Officer
National Life

Industry experience:
34 years

B.Sc. with a specialization in mathematics and physics, University of Toronto, Ontario (1969) ▪ Fellow of the Society of Actuaries (1976) and the Canadian Institute of Actuaries (1977) and member of the American Academy of Actuaries (1979) ▪ Joined National Life in 1969 ▪ Occupied various management positions in Actuarial Services, Finance and Taxation ▪ Appointed Executive Vice-President and Chief Operating Officer in March 2004

NORMAND PÉPIN
F.S.A., F.C.I.A.

Executive Vice-President
Life Subsidiaries and Individual Insurance and Annuities
Industrial Alliance

Industry experience:
30 years

B.A. in actuarial sciences, Laval University, Quebec City, Quebec (1973) ▪ Fellow of the Canadian Institute of Actuaries and the Society of Actuaries (1975) ▪ Joined Industrial Alliance in 1973 ▪ Occupied various management positions in Actuarial Services, Marketing, Information Systems, General Insurance and Individual Insurance and Annuities

Chairman of the Board of Directors of Industrial Alliance Securities and Industrial Alliance Mutual Funds ▪ President and Chairman of the Board of Directors of Investia ▪ Serves on the Board of Directors of Industrial Alliance *Pacific*, National Life and Industrial Alliance Auto and Home Insurance ▪ Member of the LIMRA International Strategic Marketing Issues Committee

YVON CÔTÉ
CFA

Vice-President and General Manager
Finance and Investments
Industrial Alliance

Industry experience:
34 years

Licence in business administration, Laval University, Quebec City, Quebec (1969) ▪ Holds the title of Chartered Financial Analyst (1986) ▪ Joined Industrial Alliance in 1969 ▪ Occupied management positions in Information Systems, Administration, Finance and Investments

Serves on the Board of Directors of Industrial Alliance *Pacific*, National Life, Industrial Alliance Securities, Industrial Alliance Mutual Funds and Investia

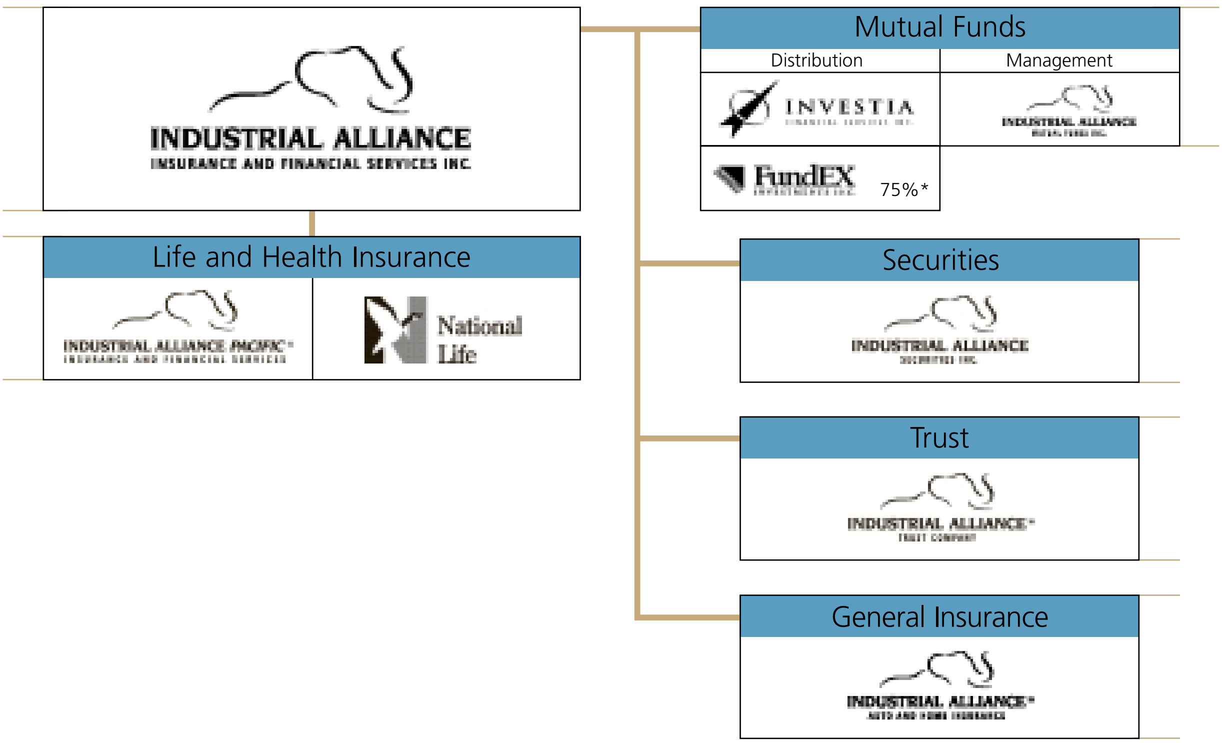
Note – The information contained on this page takes into account changes to the Industrial Alliance Group senior management team that were announced at the beginning of March 2004.





We're Worth our Weight... A Canada-Wide Group

Created in 1892, Industrial Alliance is a recognized leader in the field of insurance and financial services in Canada. The Company offers a complete range of products and services that are tailored to the needs of individual clients as well as to the specific requirements of various businesses and groups. These products and services are distributed across the country through the parent company, Industrial Alliance, and its subsidiaries, which together form the Industrial Alliance Group.



Industrial Alliance Group Subsidiaries*

Industrial Alliance *Pacific*

■ Life and health insurance company ■ Formerly known as The North West Life Assurance Company of Canada ■ Head office located in Vancouver, British Columbia ■ Created in 1951 ■ Acquired by Industrial Alliance in 1982 ■ Acquired Seaboard Life in 1999 ■ Employees: 377 ■ Assets under management: $2.4 billion

® Trademark of Industrial Alliance Insurance and Financial Services Inc., used under license by Industrial-Alliance Pacific Life Insurance Company.

National Life

■ Life and health insurance company ■ Head office located in Toronto, Ontario ■ Founded in 1899 ■ Acquired by Industrial Alliance in 1988 ■ Employees: 384 ■ Assets under management and administration: $5.1 billion

Investia

■ Mutual fund dealer ■ Head office located in Quebec City, Quebec ■ In operation since 1999 ■ Offers the funds of most major Canadian mutual fund companies ■ Acquired Groupe Financier Concorde in 2001 ■ Acquired 25% ownership of FundEX Investments in 2002 and received regulatory approval to increase ownership to 75% in early 2004 ■ Acquired Global Allocation Financial Group in 2003 ■ Assets under administration: $1.0 billion

Industrial Alliance Mutual Funds

■ Mutual fund manufacturer ■ Head office located in Toronto, Ontario ■ Created in 2003 following the acquisition of Co-operators Mutual Funds Limited (CMFL) ■ Assets under management: $94 million

Industrial Alliance Securities

■ Securities brokerage firm ■ Head office located in Quebec City, Quebec ■ Created in 2002 ■ Acquired ISL-Lafferty and certain assets of BNP (Canada) and Leduc & Associates in 2002 ■ Representatives: 59 ■ Assets under administration: $450 million

Industrial Alliance Trust Company

■ Trust company ■ Head office located in Quebec City, Quebec ■ Created in 2000 ■ Offers Industrial Alliance Group companies and distribution networks select trust products and services that are complementary to their operations ■ Assets under management and administration: $162 million

® Trademark of Industrial Alliance Insurance and Financial Services Inc., used under license by Industrial-Alliance Trust Company.

Industrial Alliance Auto and Home Insurance

■ General insurance company ■ Head office located in Quebec City, Quebec ■ In operation since 1973 ■ Distributes auto and home insurance products ■ Employees: 329 ■ Direct premiums underwritten: $77 million

® Trademark of Industrial Alliance Insurance and Financial Services Inc., used under license by Industrial Alliance General Insurance Company.

* Data as at December 31, 2003, except for FundEX. Industrial Alliance owned 25% of FundEX on that date. At the beginning of 2004, Industrial Alliance received approval from the regulatory authorities to increase its ownership in FundEX, from 25% to 75%. The transaction had not been concluded when these lines were written.

We're Worth our Weight... A Diversified Group

Individual Insurance

Products and Services
- Universal, permanent and term life insurance
- Health and disability insurance
- Critical illness insurance
- Mortgage insurance

Clientele
- Middle-income families: greater concentration in this market for Industrial Alliance and Industrial Alliance *Pacific*
- High-income families: greater concentration in this market for National Life

Distribution Networks
- Career agents
- Insurance brokers (General Agents network)
- Securities brokers (National Accounts network)
- Alternative distribution network

Competitive Advantages
- Size and multiplicity of distribution networks
- Ability to manage and grow these different distribution networks
- Diversified product line
- Ability to innovate

Individual Annuities

Products and Services
Savings Products
- Registered Retirement Savings Plans (RRSP)
- Non-Registered Retirement Savings Plans (RSP)
- Guaranteed Investment Certificates (GIC)
- Principal Guaranteed with an Alternative Investment (Index GIC)
- Segregated funds
- Mutual funds
- Registered Education Savings Plans (RESP)
- Locked-In Retirement Accounts (LIRA)

Annuity Products
- Registered Retirement Income Funds (RRIF)
- Life Income Funds (LIF)
- Life and fixed-term annuities

Clientele
- Middle-income families: greater concentration in this market for Industrial Alliance and Industrial Alliance *Pacific*
- High-income families: greater concentration in this market for National Life

Distribution Networks
- Career agents
- Insurance brokers (General Agents network)
- Mutual fund network representatives

Competitive Advantages
- Size and multiplicity of distribution networks
- Innovative and diversified products
- Good returns on investment funds

Group Insurance ▪ Employee Plans

Products and Services
- Life, accident, accidental death and dismemberment insurance
- Health insurance (including insurance for medical expenses)
- Dental care insurance
- Short- and long-term disability income insurance
- Medical assistance outside of Canada
- Critical illness and home care insurance
- Health spending accounts
- Employee and employer support programs:
  - Employee assistance program (EAP)
  - Disability management
  - Drug payment card
  - Electronic processing of dental health insurance claims
- Web@dmin: transaction-driven site for plan administrators, members and market intermediaries
- Solution Plus: small business insurance
- Multinational pooling

Clientele
- Employees of small- and medium-sized businesses (50 to 1,000 employees)
- Employees of large businesses
- Members of unions
- Members of associations

Distribution Networks
- Specialized brokers
- Actuarial consulting firms

Competitive Advantages
- Accessibility: decentralized administration and regional underwriting
- Flexibility: comprehensive, simple, flexible and innovative service offer
- Service: superior personalized service at competitive costs

The products and services offered by Industrial Alliance meet the needs of individual clients, through the Individual Insurance and Annuities sectors, as well as those of various businesses and groups, through the Group Insurance and Group Pensions sectors. The tables on these two pages present an overview of our different sectors of activity, our products and services, our target clientele, our multi-channel distribution networks and the main competitive advantages that have helped shape the Company's success.

Group Insurance ▪ Group Creditor Insurance

PRODUCTS AND SERVICES

- Life insurance
- Disability insurance
- Critical illness insurance

CLIENTELE

- Clients of automobile and RV dealers
- Clients of financial institutions

DISTRIBUTION NETWORK

- Direct and exclusive Canada-wide distribution network with sales offices in nine Canadian cities

COMPETITIVE ADVANTAGES: CREDITOR INSURANCE MARKET FOR CAR DEALERS

- First in Canada in the creditor insurance market for car dealers
- The only company with a captive and direct distribution system that covers all regions in the country
- Low unit costs resulting from economies of scale due to size and strength of the organization

Group Insurance ▪ Special Markets Group (SMG)

PRODUCTS AND SERVICES

- Accidental death and dismemberment (AD&D) insurance
- Travel medical and health insurance
- Student accident insurance
- Term life insurance

CLIENTELE

- Employers and associations
- Affinity groups
- Students and alumni

DISTRIBUTION NETWORK

- Direct and exclusive Canada-wide distribution network with sales offices in four Canadian cities: Vancouver, Calgary, Toronto and Montreal

COMPETITIVE ADVANTAGES

- Specialist in the AD&D market
- Direct and exclusive Canada-wide distribution network
- Strong reputation in the special markets niche in Ontario and Western Canada

Group Pensions

PRODUCTS AND SERVICES

Retirement Savings Products

- Defined contribution plans
  - Registered pension plans (RPP)
  - Simplified pension plans (SPP)
  - Group Registered Retirement Savings Plans (RRSP)
  - Deferred Profit Sharing Plans (DPSP)
- Defined benefit plans
  - Registered pension plans (RPP)
  - Individual pension plans (IPP)
- Supplemental Executive Retirement Plans (SERP)

Annuity Products

- Insured annuities
- Locked-In Retirement Accounts (LIRA)
- Registered Retirement Income Funds (RRIF)
- Life Income Funds (LIF)

Investment Vehicles

- Segregated funds
- Guaranteed Investment Certificates (GIC)
- Dynamic Asset Management

Interactive Vocal Response System and Transactional Internet Access

CLIENTELE

- Companies with 100 to 1,000 employees

DISTRIBUTION NETWORKS

- Specialized brokers
- Actuarial consulting firms
- Representatives from the parent company's networks

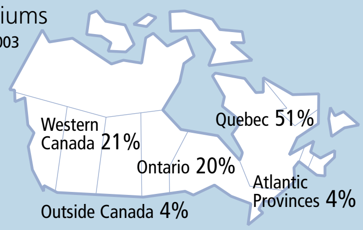
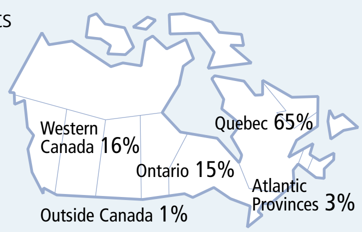
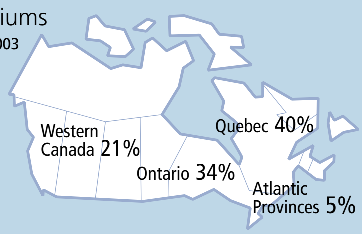
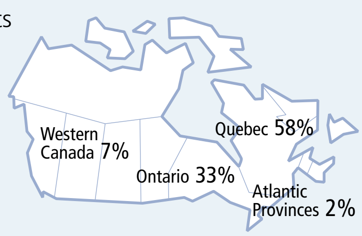
COMPETITIVE ADVANTAGES

- Diversified range of investment options and solutions
- Personalized service at competitive costs
- Wide range of products and services
- Stable, competent and experienced administrative units
- Renowned expertise in the insured annuities market

We're Worth our Weight... A Large-Scale Group

The table below presents an overall view of the Company's various sectors of activity, its diversification, which is illustrated on multiple levels, as well as various data that confirm the superior growth rate displayed by Industrial Alliance over the past five years in comparison to the industry.

DIVERSIFICATION

		GEOGRAPHIC DISTRIBUTION	DISTRIBUTION OF PREMIUMS 2001-2003	CONTRIBUTION TO NET EARNINGS 2001-2003	DISTRIBUTION OF INVESTED CAPITAL 2003
INDIVIDUALS	Individual Insurance	Premiums 2001-2003  Western Canada 21% Ontario 20% Quebec 51% Atlantic Provinces 4% Outside Canada 4%	30%	53%	53%
INDIVIDUALS	Individual Annuities	Assets 2003  Western Canada 16% Ontario 15% Quebec 65% Atlantic Provinces 3% Outside Canada 1%	27%	20%	20%
BUSINESSES AND GROUPS	Group Insurance	Premiums 2001-2003  Western Canada 21% Ontario 34% Quebec 40% Atlantic Provinces 5%	24%	15%	11%
BUSINESSES AND GROUPS	Group Pensions	Assets 2003  Western Canada 7% Ontario 33% Quebec 58% Atlantic Provinces 2%	19%	12%	16%

NOTES [1] Industry data was obtained from the following sources: Canadian Life and Health Insurance Association (CLHIA), Investor Economics, Life Insurance Marketing and Research Association (LIMRA) and Beyond 20/20. Furthermore, unless otherwise indicated, the data pertaining to the five-year growth rate are compound annual growth rates for the period between 1998 and 2003.

[2] Based on the assumption that the 2003 industry rate is equivalent to that of the Industrial Alliance Group (IAG).

Scope

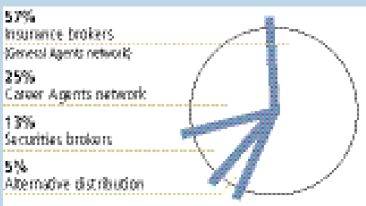
Data as at December 31, 2003

- Rank: 6th largest life and health insurance company in Canada
- Assets: $19.6 billion
- Return on equity in 2003: 14.3%
- Premium income: $2.6 billion
- Employees: 2,467
- Representatives: Over 12,000
- Insureds: Over 1.7 million Canadians

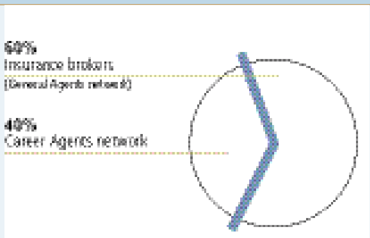
DIVERSIFICATION

MULTI-CHANNEL DISTRIBUTION NETWORK 2001-2003 (Sales)

GROWTH[1]



	5-YEAR GROWTH RATE IAG	5-YEAR GROWTH RATE INDUSTRY	2003 MARKET POSITION SHARE	2003 MARKET POSITION RANK
Sales	9.7%	5.3%	11.9%	4th
In-force (premiums)	10.4%	3.8%[2]	7.3%[3]	4th[3]



	5-YEAR GROWTH RATE IAG	5-YEAR GROWTH RATE INDUSTRY	2003 MARKET POSITION SHARE	2003 MARKET POSITION RANK
Sales				
▪ General funds and segregated funds	5.6%	2.1%[2]	6.4%[3]	n/a
Net sales				
▪ Segregated funds	(20.8%)	(29.8%)	11.4%	4th
Assets under management				
▪ Segregated funds	12.8%	9.8%	7.4%	4th

- Actuarial consulting firms
- Specialized brokers
- Insurance brokers (General Agents network)
- Career Agents network

	5-YEAR GROWTH RATE IAG	5-YEAR GROWTH RATE INDUSTRY	2003 MARKET POSITION SHARE	2003 MARKET POSITION RANK
Sales				
▪ Employee Plans	10.0%	8.5%	3.7%	6th
▪ Group Creditor Insurance	60.0%	n/a	Over 40%	1st
▪ Special Markets Group (SMG)	32.5%[4]	n/a	n/a	n/a

- Specialized brokers
- Actuarial consulting firms
- Representatives from the parent company's networks

	5-YEAR GROWTH RATE IAG	5-YEAR GROWTH RATE INDUSTRY	2003 MARKET POSITION SHARE	2003 MARKET POSITION RANK
Sales	28.6%[5]	6.9%[2]	5.0%[3]	5th

[3] 2002 data.
[4] Four-year growth rate.
[5] Excluding the Canadian Medical Association from 1999 to 2001.

Management's Discussion and Analysis
of Results of Operations and Financial Position

Summary

Forward-Looking Statements

This annual report may contain forward-looking statements about the operations, objectives and strategies of Industrial Alliance, as well as its financial situation and performance. These statements are subject to risks and uncertainties. Actual results may differ materially due to a variety of factors, including legislative or regulatory developments, competition, technological changes, global capital market activity, interest rates, changes in demographic data, and general economic conditions in Canada or elsewhere in the world. This list is not exhaustive of the factors that may affect any of Industrial Alliance's forward-looking statements. These and other factors must be examined carefully and readers should not place undue reliance on Industrial Alliance's forward-looking statements.

Non-GAAP Financial Measures (Adjusted data)

The shareholder net income, earnings per share and return on equity are presented according to generally accepted accounting principles (GAAP) as well as after making adjustments to take into account the provision taken for the Company's bond holdings in Teleglobe, goodwill expense and certain unusual items. The adjusted data are presented in order to facilitate the comparison of results from one year to another and to allow for a better analysis of the Company's profitability potential[1]. These non-GAAP financial measures do not have a standardized definition and cannot be compared directly with similar measures presented by other issuers.

[1] Please refer to the *Five-Year History* for more information on adjusted data.

Highlights

(Consolidated financial data[1])

Years ended December 31 (in millions of dollars, unless otherwise indicated)

	2003	2002 restated[2]	Variation
Profitability			
Net income to shareholders	**135.0**	97.4	39 %
Adjusted net income to shareholders[3]	**135.0**	116.8	16 %
Return on equity to common shareholders			
According to net income	**14.3 %**	11.8 %	—
According to adjusted net income	**14.3 %**	14.0 %	—
Earnings per share (diluted)			
According to net income	**$3.42**	$2.57	$0.85
According to adjusted net income	**$3.42**	$3.09	$0.33
Business Growth			
Total premiums	**2,566.7**	2,337.2	10 %
Sales by line of business			
Individual Insurance	**128.7**	133.3	(3 %)
Group Insurance			
Employee Plans	**53.3**	92.4	(42 %)
Creditor Insurance	**130.1**	124.5	4 %
Special Markets Group (SMG)	**71.5**	65.7	9 %
Individual Annuities	**658.7**	590.7	12 %
Group Pensions	**568.8**	562.8	1 %
Financial Position			
Capital structure	**1,386.7**	1,182.5	17 %
Assets under management/administration	**19,573.5**	16,760.9	17 %
Solvency ratio (MCCSR[4])	**221 %**	186 %	—
Quality of Investments			
Net impaired investments as a % of investments	**0.20 %**	0.22 %	—
Bonds: rating BB and lower as a % of the portfolio	**0.13 %**	0.11 %	—
Mortgage loans: delinquency rate	**0.86 %**	0.74 %	—
Stocks: market value as a % of the book value	**102.9 %**	96.1 %	—
Real estate: occupancy rate	**93.9 %**	92.1 %	—
Human Resources			
Number of employees (life and general insurance companies)	**2,467**	2,415	52

[1] For further detail, please see *Five-Year History.*
[2] 2002 profitability data have been restated to reflect the change in accounting policies for the stock option plan.
[3] 2002 adjusted net income excludes Teleglobe provision.
[4] Minimum continuing capital and surplus requirements.

Profitability

Industrial Alliance set a new Company record in 2003 with shareholder net income of $135.0 million, which is 39% higher than the previous year (Figure 1). This profit translates into diluted earnings per share of $3.42 and return on equity of 14.3%.

It should be noted that the 2002 shareholder net income was affected by a $19.4 million (after-tax) provision to cover the Company's bond holdings in Teleglobe. Without this provision, the 2002 adjusted shareholder net income would have been $116.8 million, and the 2003 result would have represented a 16% increase in net income.

Shareholder net income has almost doubled since 1999, and demonstrates the Company's resilience during the tough equity markets in the previous two years and into the first quarter of 2003. The Company's diverse source of profits enabled it to fare quite well through these tough economic times. The recovery in the equity markets in 2003 provided a boost to the wealth management results (particularly the Individual Annuities business) and income on capital. At the same time, the Company also had good experience results in its protection business, leading to a record year of profit.

Return on Equity (ROE)

The return on equity since demutualization has consistently been above 14%, when adjusted to obtain comparable data, and reached 14.3% at the end of 2003 (Figure 2). This return on equity is within the 13% to 15% range targeted by the Company.

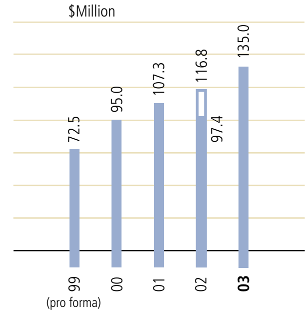
Earnings Per Share (EPS)

Diluted earnings per share for 2003 were $3.42 compared to $2.57 in 2002 ($3.09 adjusted to exclude the Teleglobe provision) (Figure 3). Since demutualization, the Company has achieved growth in earnings per share consistently in each quarter, compared to the same quarter in the previous year, excluding the impact of the Teleglobe provision.

Sources of Earnings (SOE)

The Company continues to lead the industry in financial disclosure by providing its sources of earnings to shareholders by line of business, and a two-year history by quarter. Management believes that sources of earnings reporting will help readers of our financial statements better understand the Company's sources of profits for each line of business, and more importantly, provide an early indication as to the expected trend in profits. The sources of earnings highlights for 2003 are indicated in Table 4.

1 NET INCOME TO SHAREHOLDERS[1]

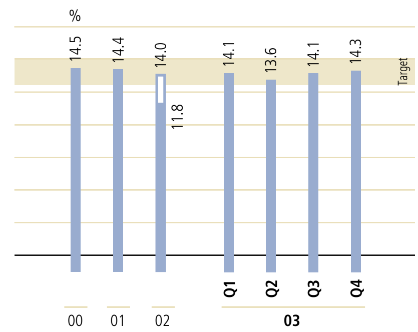


Excluding the provision for Teleglobe

[1] Adjusted for comparison purposes. See note on page 18.

2 RETURN ON EQUITY[1]
LAST TWELVE MONTHS

Target: Between 13% and 15%



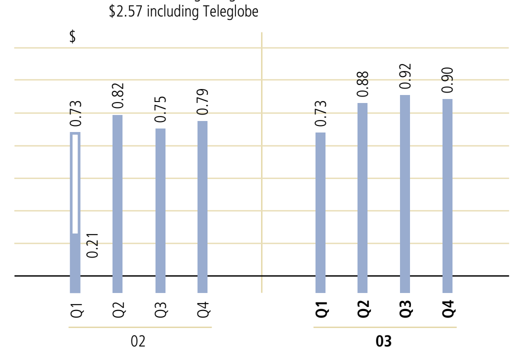
Excluding the provision for Teleglobe

[1] Adjusted for comparison purposes. See note on page 18.

3 EARNINGS PER SHARE[1]
DILUTED

2002: $3.09 excluding Teleglobe
$2.57 including Teleglobe

2003: $3.42



Excluding the provision for Teleglobe

[1] Adjusted for comparison purposes. See note on page 18.

Expected profit from in-force — The expected profit from in-force business represents the profit that an insurance company expects to generate on in-force insurance and annuity contracts, if the experience results are in line with the Company's mortality, morbidity, lapse, interest and expense assumptions deemed the most likely.

The Company's expected profit increased by 11% over the previous year, reaching $199.2 million in 2003. This reflects the continued growth of profitable business over the years and the disciplined pricing in protection business sectors over the past several years. The Company anticipates that the expected profit from in-force will grow at an annual rate of more than 10% over the next few years, particularly if the growth in the financial markets remains relatively stable.

Experience gains and losses — The experience gains or losses represent the difference between the expected profit and the realized profit. Experience gains or losses emerge when the experience differs from the assumptions used to establish the expected profit.

The Company recorded experience gains of $13.0 million in 2003 compared to modest gains of $1.3 million in 2002 (excluding the Teleglobe provision). Three out of four lines of business recorded experience gains in 2003, led by strong mortality gains, primarily in the Individual Insurance sector. Only the Individual Annuities sector reported a small experience loss in 2003 due to the stock market downturn of the last few years and lasting until the first quarter of 2003. In 2002, the two protection sectors recorded substantial experience gains, owing to excellent mortality and morbidity experience, whereas the two wealth management sectors recorded experience losses, resulting primarily from the stock market downturn. Although the Company is prudent in setting its provisions for future policy benefits, which are based on long-term expectations, experience gains or losses can fluctuate in the short term with the underlying fluctuations in mortality, morbidity and economic conditions.

Gain or strain on sales — Sales over a given period can have a positive or negative impact on earnings; this produces a gain or strain on the income statement. Strain emerges when the provisions for adverse deviation (margin for conservatism) incorporated in the actuarial reserves are higher than the profit margins incorporated in product prices. Note that sales of life insurance products generally produce a strain. The strain is usually recovered as profits in future years as the assumptions used for the pricing of these products materialize and the provisions for adverse deviation are no longer required.

The new business strain was $69.4 million in 2003, which is $9.8 million more than the previous year. The higher strain is mainly explained by the change in the composition of sales, and by an increase in the sale of guaranteed products. The Company continued to maintain its disciplined approach to pricing in 2003 despite the price competition in the marketplace.

Changes in assumptions — Changes in actuarial assumptions and methodology measure the impact of any adjustments the actuary deems necessary to better reflect the Company's experience and the environment (economic, financial, demographic, etc.) in which the Company operates.

Such changes resulted in a $4.7 million decrease in Company profits in 2003, compared to a $2.0 million increase in 2002. The reserves were adjusted twice in 2003. In mid-year, given the changing environment, the Company used an amount posted under a government assistance program for major investment projects to strengthen the provisions for future policy benefits. At the end of the year, as part of the annual revision of assumptions, the actuary determined the adjustments required for the year based on the Company's most recent experience and changes in the environment. All in all, in 2003 the Company strengthened its reserves related to the interest rate and lapse assumptions, and released reserves to take into account mortality improvements. These changes mostly affected the Individual Insurance sector.

4 SOURCES OF EARNINGS BY LINE OF BUSINESS[1]

$Million	Individual Insurance		Individual Annuities		Group Insurance		Group Pensions		Total	
	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**
Operating profit										
Expected profit from in-force	108.0	**126.7**	42.1	**41.9**	14.4	**21.2**	15.4	**9.4**	179.9	**199.2**
Experience gains (losses)	15.2	**9.7**	(18.2)	**(0.9)**	9.7	**1.3**	(5.4)	**2.9**	1.3	**13.0**
Gain (strain) on sales	(52.9)	**(57.7)**	(5.8)	**(10.8)**	—	**—**	(0.9)	**(0.9)**	(59.6)	**(69.4)**
Changes in assumptions	2.9	**(4.3)**	0.1	**0.3**	(0.4)	**0.3**	(0.6)	**(1.0)**	2.0	**(4.7)**
Total	73.2	**74.4**	18.2	**30.5**	23.7	**22.8**	8.5	**10.4**	123.6	**138.1**
Income on capital	18.9	**26.6**	7.3	**11.7**	3.9	**5.1**	7.0	**8.6**	37.1	**52.0**
Other revenues	—	**4.9**	—	**1.5**	—	**1.6**	—	**(0.9)**	—	**7.1**
Income taxes	(25.0)	**(31.2)**	(7.0)	**(13.5)**	(8.8)	**(9.9)**	(3.1)	**(4.5)**	(43.9)	**(59.1)**
Other items	—	**(2.5)**	—	**(0.5)**	—	**(0.1)**	—	**—**	—	**(3.1)**
Net income	67.1	**72.2**	18.5	**29.7**	18.8	**19.5**	12.4	**13.6**	116.8	**135.0**

[1] 2002 data adjusted to exclude the provision for Teleglobe. Including this provision, the net income for 2002 is $97.4 million. See note on page 18.

Income on capital — Income on capital represents the income drawn from investments backing the Company's capital, minus any expenses incurred to generate this income.

Income on capital reached $52.0 million in 2003, which is $14.9 million higher than the previous year's result (excluding the Teleglobe provision). The increase in income on capital primarily results from the stock market recovery, which led to an increase in the market value of seed money invested in segregated funds and an increase in income from the amortization of gains on equity investments. In 2002, the market value of seed money invested in segregated funds had declined significantly. Late in 2003, the Company reduced its seed money investments by almost half, which should reduce volatility in the future. At the end of 2003, seed money totalled $19.6 million.

Other revenues — "Other revenues" include any pre-tax amount that the Company may receive in the normal course of business, which it considers to be non-recurrent.

In 2003, the Company posted a net amount of $7.1 million under "Other revenues". These other revenues represent two specific items: an $8.7 million credit in June under the Quebec government's major investment project assistance program (as indicated above, this amount was used to strengthen the provisions for future policy benefits) and a one-time charge of $1.6 million on the recapture of reinsurance contracts in the Group Pensions sector. The amount recorded for the Quebec government's major investment project assistance program covers the period from November 2000 to June 2003. Since June, the benefits from this program have been included in the operating profit. Subject to annual eligibility tests, the Company estimates that the impact of the government assistance program on the earnings per share will reach $0.08 per year or $0.02 per quarter. This program could extend to 2010.

Income taxes — Income taxes represent the value of amounts payable under the tax laws. Investment income taxes and premium taxes are not included in these amounts. They are considered to be an expense for the purposes of calculating the operating profit.

Income taxes totalled $59.1 million in 2003, $15.2 million more than the previous year (excluding the Teleglobe provision). This increase is attributable to increased profits in 2003, and the fact that the Company benefited from tax adjustments in 2002, resulting mainly from a decision by the tax authorities relating to previous tax years. The Company anticipates that the effective tax rate should normally be around 30% in future years (32% in 2003).

Other items — This year, the Company posted a non-recurrent charge of $3.1 million after-tax resulting from the increase in Ontario tax rates.

SOURCES OF EARNINGS (SOE) BY LINE OF BUSINESS

All lines of business ended the year with higher earnings than the previous year. Below is a summary of the results by line of business to better understand the sources of profit and contribution of each business sector to the Company's overall results (Table 4).

Individual Insurance — Individual Insurance delivered strong results once again in 2003, with net income of $72.2 million, which is 8% higher than the previous year (excluding the Teleglobe provision). This income accounted for 53% of the Company's net income, compared to 57% the previous year (excluding the Teleglobe provision).

These results reflect solid profitability on the Company's growing in-force block of business. Expected profit from in-force business was up 17% to $126.7 million. Experience gains were significant at $9.7 million, reflecting continued favourable mortality experience, though lower than the previous year (excluding the Teleglobe provision). The actuarial reserves were increased by $4.3 million at year-end (compared to a $2.9 million reduction the previous year) resulting from certain updates to the actuarial assumptions and constant fine-tuning of the valuation methods. However, this sector's share of the credit under the Quebec government's major investment project assistance program offset this reserve increase in 2003.

On the other hand, strain on new business was 9% higher than in 2002, as explained earlier, because of the change in the sales mix and an increase in the sale of guaranteed products.

Individual Annuities — Thanks to the stock market recovery, 2003 was a turnaround year for Individual Annuities. Net income rose 61% (excluding the Teleglobe provision) to total $29.7 million, accounting for 22% of the Company's net income. This line of business had been the hardest hit by the prolonged market downturn in 2001 and 2002. It also benefited the most from the turnaround of the markets in 2003.

Expected profit was maintained at $41.9 million based on an anticipated turnaround in equity markets in 2003 and an increase in the asset base. This basically materialized and experience loss was a marginal $0.9 million. In contrast, experience loss in 2002 was $18.2 million mainly because of the poor equity markets. Proceeds from the management expenses ratios also recovered back to normal levels in 2003. No additional reserves for segregated fund guarantees were required. Note that the Company calculates the reserves for segregated fund guarantees based on two formulas—an internal formula and the one of the Canadian Institute of Actuaries—and chooses the higher reserve amount derived from these two formulas. Currently, the Company's internal formula is the one that generates the higher amount, and the most stable; this amount exceeds the Canadian Institute of Actuaries' level of CTE 80.

On the other hand, strain on new business was $5.0 million higher than in 2002 because of proportionately higher sales of guaranteed products in 2003.

Group Insurance — Group Insurance had another excellent year of profits following the disciplined pricing initiatives of the last few years, close monitoring of experience, and strict expense control. The $19.5 million in net income is 4% higher than the previous year (excluding the Teleglobe provision), accounting for 14% of the Company's net income.

Significant growth in the expected profit from in-force business in 2003 (+47%) reflects the results of the Company's strategic initiatives in the areas of pricing and business growth, as well as continued improvement in experience. Experience gains were therefore much lower this year at $1.3 million.

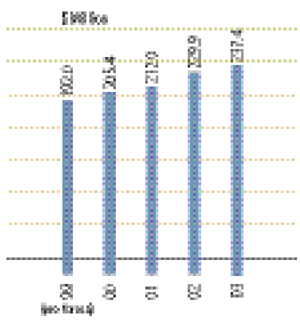
Group Pensions — The Group Pensions line of business recorded a 10% increase in net income in 2003 (excluding the Teleglobe provision), ending the year with net income of $13.6 million, which accounts for 10% of the Company's total net income.

Expected profit from the in-force business for 2003 was $6.0 million lower than for 2002, reflecting results of experience studies in recent years. However, the sector recorded experience gains of $2.9 million compared to experience losses of $5.4 million the previous year (excluding the Teleglobe provision), resulting from very favourable mortality experience on insured annuities compared to poor mortality experience the previous year. The sector also absorbed a one-time charge of $1.6 million in 2003 on the recapture of reinsurance contracts for the insured annuities block of business. This amount should be recovered in future years as the margins for adverse deviation are released.

GENERAL EXPENSES

The Company continues to strictly control its general expenses. Excluding investment expenses, general expenses totalled $237.4 million in 2003, an increase of 3% over the previous year (Figure 5). These expenses take into account the $11.3 million posted under the government's major investment project assistance program, which resulted in a reduction of general expenses.

5 GENERAL EXPENSES



The increase in expenses for the year comes from the growth of expenses associated with subsidiaries currently in the development phase (primarily in the mutual funds, securities and auto and home insurance sectors), additional expenses incurred to cover the administration of large contracts signed by the Company in previous years (particularly the Bombardier group insurance contract), and the normal growth of business.

DIVIDENDS

Industrial Alliance paid out a quarterly dividend per common share of $0.17 in the first three quarters and $0.19 in the last quarter of 2003. These dividends represent a total amount of $27.2 million. The Company paid out 20.4% of the shareholder net income in dividends in 2003. The Company's policy is to pay out a dividend between 20% and 30% of sustainable earnings and comparable to that of the other demutualized Canadian insurance companies.

STOCK OPTIONS

In accordance with the plan adopted by the Board of Directors in 2001, the Human Resources and Corporate Governance Committee issued new stock options (247,000) in 2003. These new options, which expire in 2013, were issued at a weighted average exercise price of $37.26.

Starting January 1, 2003, the Company decided to expense the cost of stock options for options granted since January 1, 2002, adopting the fair value method. According to this method, the cost of stock options is recorded as a remuneration expense in the general expenses, and the corresponding amount is recorded in the Company's contributed surplus. This change to the accounting policy has been applied retroactively and 2002 numbers have been restated accordingly. It has no impact on years prior to 2002. The impact of this change on the consolidated results translates into a $3.2 million increase in general expenses for the twelve months ended December 31, 2003 ($3.3 million for the twelve months ended December 31, 2002). The impact of this change on the consolidated balance sheet is a decrease in retained earnings of $6.5 million as at December 31, 2003 ($3.3 million as at December 31, 2002), and an equivalent increase in the contributed surplus for each of these two years.

The granting of stock options did not generate a dilution of the earnings per share in 2003 or in 2002.

SUMMARY

2003 was certainly a very profitable year for the Company with a new record of $135.0 million in net income, diluted EPS of $3.42, and ROE of 14.3%. All lines of business did better than the previous year.

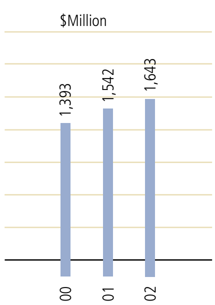
These excellent results provide a good platform for the Company going into 2004, where the target remains a 13% to 15% return on equity.

Embedded Value

Embedded value is one of the best tools life insurance companies have for measuring their economic worth. Not only does embedded value provide the necessary information to estimate the value of a life insurance company, it also allows for a better understanding of the financial dynamics of a company and the various items that affect its performance.

As at December 31, 2002, the date of the most recent valuation, Industrial Alliance's embedded value reached $1.6 billion, an increase of just over $100 million, or 6.5% compared to 2001 (Figure 6). This value corresponds to $43.77 per share, which gives an idea of the economic worth of each outstanding share, without however taking into account the Company's distribution capacity and future sales.

6 EMBEDDED VALUE



Changes in embedded value from one year to another are affected by several factors. These factors can be divided into three major categories: recurring items, non-recurring items and dividends paid to shareholders.

As Table 7 shows, recurring items caused embedded value to increase by 12.3% in 2002 (13.0% in 2001). Recurring items are composed of the added value of new sales and anticipated normal growth. The Company expects to be able to grow the recurring portion of embedded value by over 10% each year.

Numerous other factors over which insurance companies have little or no control also affect the growth of embedded value. These are the "non-recurring" items. In 2002, these items included the experience losses related to the dismal stock market performance and the provision to cover the Teleglobe bonds. These two items caused embedded value to decrease by 5.6% and were undoubtedly the two highlights of 2002.

Changes in assumptions caused embedded value to increase, but this increase was almost completely offset by the payment of dividends to shareholders. All in all, embedded value increased by 6.5% in 2002 (10.7% in 2001).

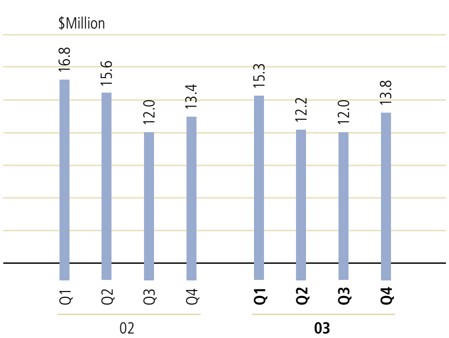
Another interesting measure, which makes it possible to assess the relative value of an insurance company's stock, is the embedded value/book value ratio. At the end of 2002, the embedded value represented 1.90x the Company's book value. This is the highest ratio among all insurance companies that have disclosed their embedded value.

Embedded Value of New Sales

The embedded value of new sales measures the proportion in which new contracts sold during the year contribute to the increase in the embedded value. It also allows for a judgment to be made about the profitability of the products and services offered by a life insurance company and the productivity of the company's distribution networks.

Industrial Alliance's 2003 sales added $53.3 million or $1.35 per share to the Company's embedded value (Figure 8). This value is 7.8% lower than the previous year. This decrease is primarily attributable to slower sales, which itself is due to the fact that the Company manages its business by seeking to maintain a balance between its growth and profitability objectives.

8 EMBEDDED VALUE OF NEW SALES[1]



[1] 2002, data recalculated according to 2003 assumptions.

7 EMBEDDED VALUE PER SHARE

	2001 Embedded Value[1] ($)	2001 Contribution to Growth (%)	2002 Embedded Value[1] ($)	2002 Contribution to Growth (%)
Value per share at beginning of year	37.08	—	41.11	—
Recurring items				
Expected growth	3.07	8.3	3.36	8.2
New sales	1.76	4.7	1.68	4.1
Total of recurring items	4.83	13.0	5.04	12.3
Non-recurring items				
Experience gains (losses)	(0.96)	(2.5)	(2.29)	(5.6)
Changes in assumptions	0.00	0.0	0.58	1.4
Other	0.72	1.9	0.00	0.0
Total of non-recurring items	(0.24)	(0.6)	(1.71)	(4.2)
Dividends paid to shareholders	(0.62)	(1.7)	(0.64)	(1.6)
Embedded value added	3.97	10.7	2.69	6.5
Value per share at end of year	41.11	—	43.77	—
Embedded value/book value ratio at end of year	1.95	—	1.90	—

[1] The data are not additive since the number of outstanding shares has increased.

In our opinion, there is no doubt that embedded value is a very valuable tool for investors, and one that can be used to determine a company's ability to generate value for its shareholders.

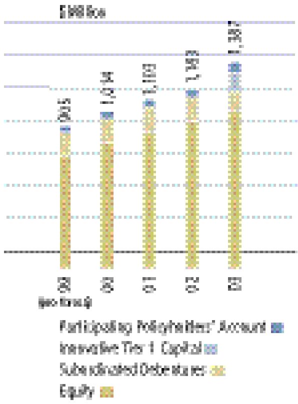
Capitalization and Solvency

Healthy capitalization and solvency levels are key elements for a life insurance company, not only for the financial security of policyholders, creditors and shareholders, but also to ensure its growth and obtain favourable credit ratings.

Capitalization

Industrial Alliance's capital structure is made up of equity, subordinated debentures, innovative tier 1 capital, and the participating policyholders' account. At the end of 2003, the Company's capitalization reached $1,387 million, a 17% increase over the end of 2002 (Figure 9). Just over half of the growth recorded throughout the year comes from the realized net income, and the rest is attributable to the issue of innovative tier 1 capital. In the last five years, the Company's capitalization has grown at an average annual rate of 15%.

9 CAPITALIZATION



In 2003, the Company's capital structure underwent some major changes as a result of the following three events:

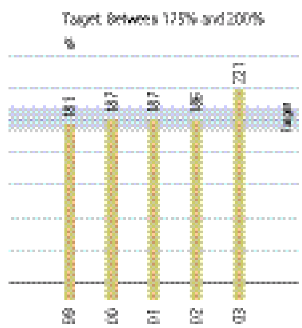
- The conversion of $56.3 million in preferred shares held by Capital d'Amérique CDPQ into common shares.
- The issue of $150 million in innovative tier 1 capital ("IATS") by Industrial Alliance Capital Trust.
- The redemption of the $50 million in series 2 subordinated debentures.

The changes that occurred in the capital structure throughout the year led to an increase in the Company's solvency ratio and debt ratio, and an improvement in the quality of its capital (since the available capital now includes a greater proportion of tier 1 capital—in other words, permanent capital—, versus tier 2 capital—temporary capital).

Solvency

The solvency ratio rose by 35 percentage points in 2003 to reach 221% at year-end (Figure 10). This far exceeds the regulatory requirements as well as the Company's objective, which is to maintain a solvency ratio of between 175% and 200%. This ratio gives us ample financial flexibility to do many things—grow our business, make acquisitions, refinance our subordinated debentures, increase dividends or buy back common shares.

10 SOLVENCY RATIO
MINIMUM CONTINUING CAPITAL AND SURPLUS REQUIREMENTS (MCCSR)



The increase in the solvency ratio is primarily due to the Company's profits throughout the year, the stock market recovery, and the issue of innovative tier 1 capital. In accordance with the principles established by the regulatory authorities regarding the inclusion of innovative instruments in equity, virtually all the innovative tier 1 capital issued by the Company in 2003 was eligible as tier 1 capital.

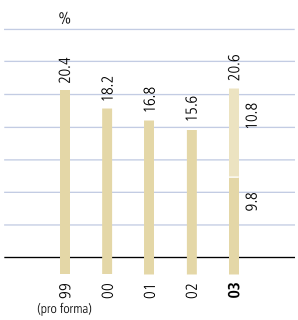
The increase in the solvency ratio was somewhat slowed, however, by the redemption of series 2 subordinated debentures and the changes made by the regulatory authorities to the formula for calculating the solvency ratio with respect to the treatment of negative reserves and lapse risk. The regulatory authorities decided to introduce these changes gradually over a 3-year period, starting in 2003.

Note that because of its good profitability, the Company generates more capital in the normal course of business than required by its internal needs for growth, which increases the solvency ratio.

DEBT RATIO

In 2003, the issue of the innovative tier 1 capital and the redemption of the subordinated debentures led to a net increase in the Company's debt ratio. This ratio, which is calculated by dividing the subordinated debentures and the innovative tier 1 capital by the capital structure, was 20.6% as at December 31, 2003, compared to 15.6% at the end of 2002 (Figure 11). Despite this increase, the Company's debt ratio is at a very acceptable level for the credit agencies (which all renewed the Company's ratings, as indicated in the next paragraph). The Company still has financial flexibility to leverage its capital structure.

11 DEBT RATIO[1]



[1] Calculated by dividing the subordinated debentures and innovative tier 1 capital by the capitalization.

CREDIT RATINGS

In 2003, the three independent credit agencies that rate Industrial Alliance renewed all of their ratings for the Company with a stable outlook. These three agencies also gave the Company an additional rating for the innovative tier 1 capital issue. These ratings confirm the Company's financial solidity and its ability to meet its commitments to policyholders and creditors.

12 CREDIT RATINGS

Rating Agency	Type of Evaluation	Rating/Outlook
Standard & Poor's	Financial Solidity	A+/Stable
	Subordinated Debentures	A-
	Innovative Tier 1 Capital	BBB+
	Preferred Shares	BBB+
DBRS	Financial Solidity	IC-2/Stable
	Subordinated Debentures	A
	Innovative Tier 1 Capital	A (Low)yn
	Preferred Shares	Pfd-2 (High)n
A.M. Best	Financial Solidity	A (Excellent)/Stable
	Subordinated Debentures	a -
	Innovative Tier 1 Capital	bbb+
	Preferred Shares	bbb+

NORMAL COURSE ISSUER BID

The Board of Directors of Industrial Alliance has authorized the Company to purchase, through an affiliated company, in the normal course of its activities, from December 24, 2003 to December 23, 2004, up to 1,900,000 of its common shares, representing approximately 4.8% of the issued and outstanding common shares as at December 18, 2003. Under this authorization, the purchases would be made at market prices through the facility of the Toronto Stock Exchange in accordance with its rules and policies. Industrial Alliance believes that the purchase of its common shares would represent an effective use of its funds and would be in the best interests of the Company and its shareholders.

The number of outstanding common shares as at December 31, 2003 was 39.3 million, an increase of 1.7 million over December 31, 2002. This increase is directly attributable to the conversion of preferred shares into common shares that took place during the year.

Personal Financial Services

Industrial Alliance is a Canadian leader in the individual insurance and annuities market. It offers a full line of life and health insurance products, savings and retirement products and a wide range of investment vehicles, including segregated funds, mutual funds, securities and guaranteed investment certificates.

These products are distributed by multi-channel networks, including a network of Career agents, a network of insurance brokers, a network of securities brokers and an alternative distribution network.

Individual insurance and annuities products are marketed by the Industrial Alliance Group's three life insurance companies: Industrial Alliance, which distributes its products primarily in central and eastern Canada, Industrial Alliance *Pacific*, which mainly operates in the western regions, and National Life, which distributes its products across Canada. Industrial Alliance and Industrial Alliance *Pacific* distribute the same line of products in several market segments, but with a stronger concentration in the middle-income families markets, while National Life distributes its own line of products, primarily in the high-income families market.

Individual Insurance

The environment in which life and health insurance companies are evolving has gone through a number of changes in the past year. New mergers have taken place between companies, price pressure has not let up, and the market, for all intents and purposes, was stagnant for the third consecutive year.

In this environment, our biggest success was to maintain both our profit margins and our market shares. As a result, the Company continues to be an industry leader in Canada, where the five big insurers alone—including Industrial Alliance—hold almost 70% of the Canadian individual insurance market.

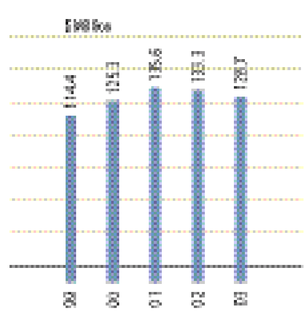
We owe this achievement to a strategy that rests on several attributes: the size and diversity of our distribution networks, our ability to manage and grow these networks effectively, the scope of our product line, our ability to innovate and stand out in an increasingly competitive market, and, perhaps above all else, the hard work of our employees and representatives.

BUSINESS GROWTH

The year can be divided into two phases for the Individual Insurance sector: a rather gloomy first half, when the market was still feeling the effects of the recent years' poor stock market performance, and a very solid second half, marked by a recovery in sales in the last two quarters.

The growth recorded in the second half of the year however was not sufficient to totally offset the shortfall accumulated in the first half. As a result, the year ended with $128.7 million in sales, 3% lower than the previous year's result (Figure 13). This performance is roughly in line with results for the industry, where sales were down 1% in 2003.

13 SALES[1]
INDIVIDUAL INSURANCE

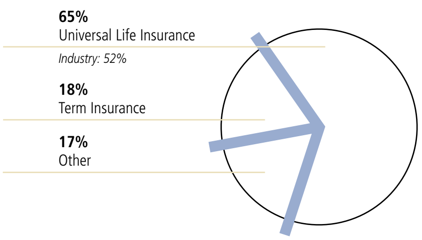


[1] First-year annualized premiums, excluding the Canadian Medical Association from 1999 to 2001.

The decline in sales was primarily attributable to the stock market slump, which extended into the beginning of 2003. This undermined the confidence of investors, who considerably reduced the amount of money invested in the "savings" portion of their contracts. This decline had the greatest impact on Universal Life products, particularly among high-income clients. Note, however, that sales were particularly strong for term insurance and critical illness products, which continue to be well regarded by consumers.

For the past few years, the Company's market share for individual insurance sales has consistently been greater than 10%. In 2003, the Company's market share was 11.9%, ranking us 4th in Canada. For Universal Life policies, however, the Company is still ranked number one in Canada with 16.7% of the market, despite the merging of several large insurance companies. Sales of this product account for 65% of all Company sales, compared to 52% for the industry (Figure 14).

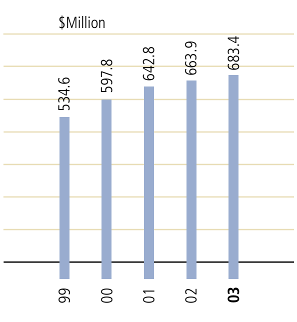
14 SALES BY PRODUCT
INDIVIDUAL INSURANCE



Also of note is the fact that the Company sold just over 100,000 new individual insurance policies in 2003, making it one of the leading insurers in this regard in Canada.

Strong year-end sales and excellent persistency rates brought premium income up to $683.4 million, an increase of 3% over the previous year (Figure 15). Premium income includes premiums paid by insureds on new contracts as well as renewal premiums paid on in-force contracts.

15 PREMIUMS[1]
INDIVIDUAL INSURANCE



[1] Excluding the Canadian Medical Association from 1999 to 2001.

Individual Insurance

HIGHLIGHTS OF 2003

- Maintained profit margins and market shares despite an extremely competitive environment
- Number one in Canada for the sale of Universal Life policies
- Over 100,000 new individual insurance policies sold
- Continued enhancement of our product line, including the marketing of a new financial concept for Universal Life policies (IRIS) and increased flexibility of our critical illness product

STRATEGY AND MARKET OPPORTUNITIES

- Sales: grow sales by five percentage points more than the industry
- Distribution networks: take advantage of industry consolidation to pursue the development of our multi-channel distribution networks
- Products: remain at the forefront in the development of innovative, competitive products that are adapted to the new demographic and economic realities

MAIN ACHIEVEMENTS IN 2003

In 2003 we made several improvements to our product line, as we do every year, and continued our decentralization project with respect to agency functions. It is extremely important to update our products regularly in order to keep them attractive and competitive, and to distinguish ourselves from our competitors. Below are a few of our main achievements in 2003.

- With respect to Universal Life policies, we made several improvements to our Meridia product. In particular, we added some new investment options and improved the interest bonus on the savings portion of the contract. Meridia continues to be our most popular individual insurance product.
- On the Universal Life front again, we launched a new sales concept for the high-end market: the IRIS concept. Without wanting to neglect the family market, we feel it is important to diversify our product line and sales concepts so as to meet the needs of all distributors, regardless of their market niche. The concept we proposed stands out in that it presents greater potential with respect to the tax benefits clients can derive from it.
- We made several innovations to our critical illness product. In particular, we added a conversion privilege from term to permanent coverage, as well as an additional illness (a 21st) to the list of covered illnesses. Our product offers one of the broadest coverages on the market. It was launched three years ago, and still receives excellent ratings from our clients, primarily because of the flexible premium refund option, which guarantees the payment of a benefit during the insured's lifetime, regardless of whether or not the insured contracted a critical illness. This option is recognized as being at the forefront of the market.

- National Life launched a brand new line of products, known as "e" products, which now includes a Universal Life product called *e-Guaranteed Universal Life*, a term insurance product called *e-Term 100*, and a critical illness product called *e-Critical Illness*. This line, which complements the Company's regular products, adds further diversification to National Life's service offer. These products are made available to the brokers primarily through the National Life website.
- National Life also introduced a new category of investment options called *Alternative Investment Strategies* within its regular Universal Life product and its new *e-Guaranteed Universal Life* product.
- Lastly, in the Career Network, we continued our agency reorganization project with the improvement of the electronic point-of-sale application. The purpose of this project, which is spread over several years, is to further decentralize functions to the representatives so as to ensure greater flexibility, greater efficiency, and faster processing of the information. The final phase of this project is planned for 2004.

STRATEGY AND MARKET OPPORTUNITIES

Our objective in the Individual Insurance sector continues to be to grow our sales by five percentage points more than the industry. Although we weren't able to achieve this objective in 2003, we did achieve it for the past five years, with our sales increasing by 10% a year on average compared to 5% for the industry.

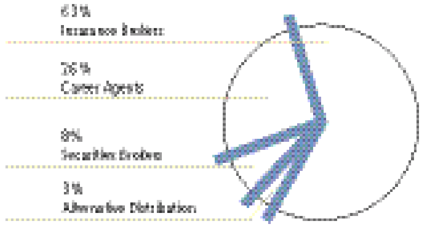
For several years now, Industrial Alliance has been recognized as a leader in the individual insurance market. We owe our success not to a single factor, but to a group of factors which together have allowed us to stand out in the market. These factors revolve around two main components: the size of our distribution networks, and the scope and originality of our product line.

Size of the distribution networks — The key to success in individual insurance is, first and foremost, a company's ability to build a strong, quality distribution network. In fact, life insurance is a product that is "sold" and not a product that is "bought". This is one of the most firmly rooted paradigms in the industry. Representatives therefore have a decisive influence on consumers' purchase of life insurance. Moreover, life insurance is a complex product that must be sold by well-trained professionals.

Given these characteristics, the Company's strategy for the distribution of life insurance has always been to serve the needs of selected distributors with whom our service offer "can make a difference".

This is why we decided to distribute our products through multi-channel networks, including a Career agents network, an insurance brokers network (General Agents Network), a securities brokers network (National Accounts Network) and an alternative distribution network (Figure 16). In total, the Company's products are distributed by over 12,000 representatives.

16 SALES BY NETWORK
INDIVIDUAL INSURANCE



These representatives operate in all regions of the country, and are able to meet the needs of all layers of the population, from low-income families to middle- and high-income families.

The key to our success has always been to treat these representatives as professionals, and to never take them for granted. We treat them as though we need to earn their trust every day. We consult them on a regular basis regarding our various initiatives, we provide them with simple, professional marketing materials, we supply them with state-of-the-art management tools, and we provide Career network representatives with comprehensive training programs. In short, we listen to what they have to say, and we do everything we can to help them achieve success.

With distribution networks, success is not achieved overnight. It is a lengthy undertaking whose ultimate objective is to build a lasting relationship of trust based on mutual respect.

We believe we have everything we need to take advantage of the consolidation currently under way in the industry. Industrial Alliance is a logical choice for representatives looking for a stable, professional and attentive manufacturer.

Also, note that our objective for the Career network is to increase the number of representatives by 3% every year.

Scope and originality of our product line — Our product portfolio is another key part of our strategy. To be successful, we must have a comprehensive line of competitive, innovative and profitable products.

Our product line includes a wide range of Universal Life products, permanent and term products, health and disability insurance, critical illness insurance, mortgage insurance, and, through our property and casualty subsidiary, auto and home insurance.

We are constantly seeking to distinguish ourselves in the industry by offering products with unique features. In the past year, to give three recent examples, we launched a new sales concept for Universal Life insurance that targets the high-end market (IRIS); we were the first company to make hedge funds available to all investors through Universal Life policies; and we increased the flexibility of our critical illness product, which continues to stand out in the market due to its flexible premium refund option.

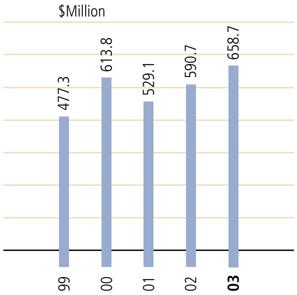
Individual Annuities

It was a solid year for the Individual Annuities sector. In addition to capitalizing on the stock market recovery in mid-year and the popularity of segregated funds, this division pursued its growth strategy in the wealth management sector and launched some innovative new products.

BUSINESS GROWTH

Sales totalled $658.7 million in 2003, up 12% over the previous year (Figure 17). The sector's strong performance is primarily due to the popularity of our new family of hedge funds and our guaranteed products, including the Principal Guaranteed with an Alternative Investment (PGA) product. The excellent performance of our segregated funds also contributed to the sector's favourable results. Investors continue to be attracted to the capital guarantee at maturity and at death offered by these funds.

17 SALES[1]
INDIVIDUAL ANNUITIES



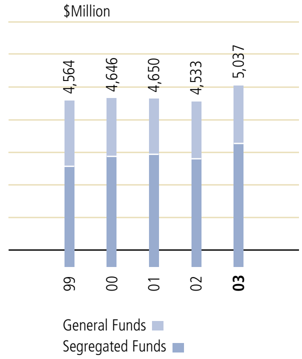
[1] Measured according to premiums.

Although investors had moved their money into guaranteed funds when the markets were weak, they moved it right back into segregated funds as soon as the markets showed lasting signs of recovery. In 2003, segregated funds represented just under two thirds of all fund in-flows.

The year ended with positive net segregated fund sales of $117.5 million. For long-term funds, net sales represented 3.8% of the fund assets, double the industry result for segregated funds and mutual funds combined. In 2003, the Company ranked fifth in Canada for net segregated fund sales, with a market share of 11.4%.

After dropping in the first quarter due to declining stock markets, the value of funds under management in the Individual Annuities sector began to rise again in the second quarter, bringing general fund and segregated fund assets to $5.0 billion as at December 31, 2003, an 11% increase over the previous twelve months (Figure 18). This increase in assets is attributable to rising stock markets and positive net sales. As at December 31, 2003, we were ranked fifth in Canada for segregated fund assets, with 7.4% of the market.

18 FUNDS UNDER MANAGEMENT
INDIVIDUAL ANNUITIES



MAIN ACHIEVEMENTS IN 2003

In terms of achievements, the Company pursued its growth strategy in the Wealth Management sector, with the announcement of three transactions.

- On October 16, 2003, Industrial Alliance closed the acquisition of Global Allocation Financial Group Inc. Global Allocation is a mutual fund dealer based in Peterborough, Ontario. The operations of Global Allocation were merged with those of Investia, Industrial Alliance's mutual fund distribution subsidiary. The acquisition of Global Allocation brought Investia's assets under administration to $1.0 billion at the end of 2003.
- On November 20, 2003, Industrial Alliance also announced the closing of the Co-operators Mutual Funds Limited (CMFL) acquisition. CMFL is a mutual fund manufacturer, whose name was changed to Industrial Alliance Mutual Funds Inc. This acquisition will enable the Company to manage its own line of mutual funds. As at December 31, 2003, assets under management for Industrial Alliance Mutual Funds reached $94 million.
- Also, at the beginning of 2004, Industrial Alliance and FundEX Investments Inc. received approval from the regulatory authorities to sign an agreement to increase Industrial Alliance's share in FundEX from 25% to 75%. FundEX is a mutual fund dealer that administers some $3.5 billion in assets. Industrial Alliance had purchased 25% of the shares in FundEX in June 2002.

As with the Individual Insurance sector, the Company's goal on the product front is to stand out from its competitors through constant innovation. Below are a few examples of its innovative achievements in 2003.

- We launched five new series of the Principal Guaranteed with an Alternative Investment (PGA) product and introduced some enhancements, including the addition of a seven-year term with a guaranteed minimum return. The PGA product is similar to the index guaranteed investment certificates (GICs) offered by the various financial institutions in Canada. It enables clients to benefit from rising stock markets while receiving full protection of their invested capital. The PGA has proven to be very popular given the recent volatility of the stock markets.

- We introduced a new family of hedge funds. Although this kind of product was previously only available to an "exclusive" clientele, the Company has become the first insurer to make this product available to all investors.
- We also added two income trust funds to our investment line. These are distinguished by their special tax features.
- On the technology front, we continued to innovate in the area of sales and management support tools. For example, we launched a new retirement planning software and, as part of the agency decentralization plan, we introduced a new function to enable electronic enrolment for accumulation annuities.

STRATEGY AND MARKET OPPORTUNITIES

Our strategy in the Individual Annuities and Wealth Management sector can be summed up as follows: to provide representatives with a comprehensive line of financial products and services so that they can offer effective and integrated wealth management services to their clients, and to further expand the Company's distribution capacity in all areas of financial services.

Thanks to our acquisitions over the past few years, we now operate in five major wealth management sectors. Today, we offer insurance products with an investment component, traditional savings and retirement products, segregated funds, mutual funds and securities.

- In terms of insurance products with an investment component—essentially, Universal Life policies—we are the Canadian leader in this market. These products are distributed through the Company's "traditional" networks, made up of more than 12,000 representatives.
- With respect to savings products like guaranteed investment certificates, and retirement products such as life annuities, Industrial Alliance has a great deal of expertise since it has been offering these products for many years. These products are also distributed through the Company's "traditional" networks.
- Segregated funds have been offered by Industrial Alliance to all investors for about a decade. These funds represent a market of over $40 billion (with respect to assets), a market in which the Company is ranked fifth, with over 7% of the market. These products are also distributed through the Company's "traditional" networks.
- Mutual funds are a whole new market for Industrial Alliance. These products are offered through two Company subsidiaries:
  - Industrial Alliance Mutual Funds, which is a mutual fund manufacturer created at the end of 2003; and
  - Investia, which is a mutual fund dealer that distributes the funds of most major mutual fund companies in Canada. Investia didn't really begin operations until a few years ago, and now has $1 billion in assets under administration ($4.5 billion including FundEX's assets under administration). The mutual fund market is ten times bigger than the segregated fund market. Investia products are distributed through its own network of over 1,000 representatives.

Individual Annuities

HIGHLIGHTS OF 2003

- 12% increase in sales
- Entry into the mutual fund manufacturing market through the acquisition of Co-operators Mutual Funds, now Industrial Alliance Mutual Funds
- Acquisition of a new mutual fund distribution company, Global Allocation, and increase in our ownership from 25% to 75% in another, FundEX
- Introduction of several new additions to our product line: hedge funds and income trust funds

STRATEGY AND MARKET OPPORTUNITIES

- Remain at the forefront in the creation of innovative, competitive products that are adapted to the new demographic and economic realities
- Grow the various companies created over the last few years in the mutual fund manufacturing and mutual fund distribution and securities fields in order to achieve a critical mass
- Maximize the synergy among our various distribution networks by promoting our full line of financial products and services

- Securities are also a whole new market for Industrial Alliance. The Company began operating in this market two years ago now, with the acquisition of three securities companies. These companies were combined to create a new subsidiary known as Industrial Alliance Securities, which now has some $450 million in assets. This subsidiary's products are distributed by almost 60 representatives.

Industrial Alliance now has the ability to "manufacture" several types of products—insurance, annuities, segregated funds and mutual funds. These products are distributed through three types of distribution networks—the "traditional" network, the mutual fund network, and the securities broker network of our own subsidiary. Our strategy is therefore as follows:

- First, to grow the different organizations that we have set up over the last few years in order to achieve a critical mass. In particular, we plan to build on our expertise in segregated fund management to penetrate the mutual fund management market.
- Secondly, to make some of the Company's investment products such as segregated funds, or annuities such as life annuities, available to the mutual fund and securities network representatives; and conversely, to make mutual fund and securities products available to the various Company networks.
- Eventually, to make certain types of insurance products, such as Universal Life insurance, available to mutual fund and securities network representatives.

Group Products and Services

In addition to distributing its products to individuals, through the Individual Insurance and Annuities sectors, the Company distributes a varied range of products to businesses and groups, through the Group Insurance and Pensions sectors.

In the Group Insurance sector, the Company operates in three market segments: employee plans, creditor insurance and special risks.

In the Group Pensions sector, the Company operates in two market segments: accumulation products and insured annuities.

All these sectors—and all these markets—are described in greater detail in the respective text for each sector.

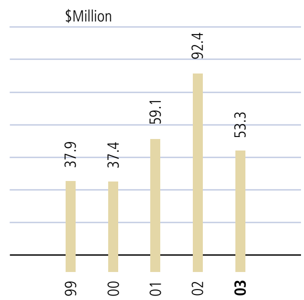
Group Insurance ▪ Employee Plans

After a record year for business development in 2002 with the signing of the largest contract in the Company's history, sales for the Group Insurance Employee Plans sector returned to a more normal level in 2003. However, strong sales over the last few years enabled the sector to surpass the half-billion dollar mark in in-force premium and obtain a record profit for the third consecutive year. In terms of achievements, the unequivocal highlight of the year was the implementation of the Company's new strategy to market employee plan products and services under a single brand name, that of Industrial Alliance.

BUSINESS GROWTH

Employee plan sales reached $53.3 million in 2003, a 42% decrease from the previous year (Figure 19). However, 2002 was marked by the sale of a contract to Bombardier, the largest contract in the Company's history. If we exclude this contract, sales would have grown 28% in 2003. Sales in our target market of groups of 50 to 1,000 employees grew 16% compared to 2002, which is better than the performance of the industry, which saw an 8% decrease in sales in this market.

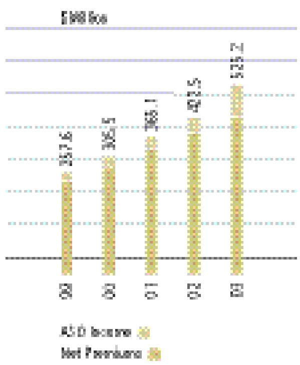
19 SALES[1]
GROUP INSURANCE
EMPLOYEE PLANS



[1] First-year annualized premiums.

Strong sales and good business persistency over the last few years caused premium income to double in the last five years, surpassing the $500 million mark in 2003 to reach $525.2 million. This represents a 24% increase over the previous year's result (Figure 20). This growth primarily comes from the contracts that came into force for the new Bombardier divisions, sales obtained during the year and a good in-force business renewal rate.

20 NET PREMIUMS AND ASO INCOME
GROUP INSURANCE
EMPLOYEE PLANS



Taking into account the latest mergers and acquisitions that have taken place in the market, the Company is now ranked 7th in Canada in terms of in-force business, with almost 3% of the market, and 6th in terms of sales, with almost 4% of the market.

MAIN ACHIEVEMENTS IN 2003

In terms of achievements, 2003 was marked by the launch of a new marketing strategy in October, under which the Industrial Alliance Group's employee plan products and services are now marketed under a common brand name: Industrial Alliance Insurance and Financial Services. Hence, as of January 1, 2004, we began underwriting all new groups under the Industrial Alliance brand name. Also, beginning April 1, 2004, all current National Life and Industrial Alliance *Pacific* groups will receive a new proposal from Industrial Alliance before their renewal date. Everything has been set in motion to simplify the transition for plan members, contractholders and market intermediaries.

This marketing strategy has a twofold objective: to strengthen the awareness and position of the Industrial Alliance Group's brand name on the Canadian market, and to provide plan members, sponsors and administrators nation-wide with management tools and services, as well as competitive insurance coverage.

This new strategy confirms the consolidation of the Group Insurance operations of all Industrial Alliance Group life insurance companies that was initiated a few years ago. This consolidation involved our Montreal and Toronto administrative centres, as well as our sales and services offices located throughout Canada. By using the same technological tools, we are now able to administer national groups simultaneously in our two administrative centres.

Previously, the Industrial Alliance Group marketed its Group Insurance Employee Plan products and services under three different brand names: Industrial Alliance in Quebec and the Atlantic provinces, National Life in Ontario and Industrial Alliance *Pacific* in Western Canada.

Group Insurance ▪ Employee Plans

THE SECTOR AT A GLANCE

The Group Insurance Employee Plans sector offers a full range of life, health and disability insurance products, dental care and home care insurance, critical illness insurance, medical insurance outside Canada and other group insurance products.

The sector operates primarily in the medium-sized business market (50 to 1,000 employees), but also manages the plans of several large businesses. The sector can also meet the needs of union members and professional associations, as well as those of small businesses. Company products are offered on an insured basis, on an experience basis or on an administrative services only (ASO) contract basis.

The sector's products are primarily distributed through two distribution networks: specialized brokers and actuarial consulting firms. The representatives in these networks work in partnership with our sales and service team, which operates in six cities: Halifax, Quebec City, Montreal, Toronto, Calgary and Vancouver.

On January 1, 2004, the Company began distributing its group insurance employee plans under a single brand name—that of Industrial Alliance—from two administrative centres, one in Montreal and the other in Toronto.

HIGHLIGHTS OF 2003

- Launch of a new marketing strategy under which the Company uses a single brand name throughout Canada—that of Industrial Alliance
- Attainment of the $500 million mark in premium income and ASO income
- Significant growth in our target market of medium-sized groups
- Record profit for the third consecutive year
- Implementation of Web@dmin website with more than 300 groups
- Ongoing improvement of productivity and client service indicators

STRATEGY AND MARKET OPPORTUNITIES

- Establish Industrial Alliance on the market as a company with Canada-wide service capabilities
- Accelerate our development, particularly outside Quebec
- Increase our penetration in our target market of groups of 50 to 1,000 employees
- Be opportunistic in the underwriting of large-sized groups
- Develop the multi-employer market, particularly in Ontario
- Become the insurer of choice for a growing number of distributors
- Maintain an up-to-date, comprehensive, innovative and competitive service offer

We have also continued to develop Web@dmin, our transactional website, prompting more and more plan administrators and members to benefit from our online link. We also added several new functions in 2003. Administrators can now consult their contracts and calculate their members' required contributions. Members can also obtain more information about their coverage and can access the benefits explanation booklet.

Finally, we took several steps in 2003 to improve the quality of client service and reduce service time during peak periods. The flexibility of our computer tools has enabled us to automate several processes and thereby increase the speed and quality of operations. We have seen a constant improvement in service indicators since these initiatives were taken.

STRATEGY AND MARKET OPPORTUNITIES

We are looking to stand out in the market in three ways:

- By being "accessible": this is accomplished by the presence of sales and service teams in all regions of Canada, through an underwriting process that takes into account local conditions (underwriting is done in our Vancouver, Toronto and Montreal centres) and through decentralized and efficient administration carried out in our Toronto and Montreal centres.
- By being "flexible": flexibility is defined as the ability to continually design simple and efficient solutions, which is the case with our health spending account for example, and to create innovative products, which is the case with our disability management program, critical illness insurance or home care insurance. Flexibility is also defined as the ability to offer flexible employee benefits programs for members from large companies, thanks to our flexible technology tools. Flexibility can also be seen in products like Solution Plus, designed specifically to meet the needs of small businesses.
- By offering superior "service": service quality is defined as the ability to respond quickly and efficiently to client requests and the implementation of state-of-the-art technological tools, at competitive prices.

In terms of business growth, our goal is to establish Industrial Alliance in the market as a company that has the capacity to provide Canada-wide service. The new marketing strategy to market all our products and services under the Industrial Alliance brand name falls within the scope of this objective.

It is also in this spirit that we have decided to launch a vast television and print advertising campaign outside of Quebec, primarily in the Atlantic provinces and in the greater metropolitan Toronto and Vancouver areas. This campaign aims to increase awareness of the Company and enhance the Company's brand name image in these regions. Even though we are well known among market intermediaries, our goal is to become better known among group insurance decision-makers, such as human resources managers or union representatives.

We continue to pursue a greater market share among medium-sized businesses, which are made up of 50 to 1,000 employees. We are also targeting the large-business market, a sector where we have had some success over the last few years. Among the markets we hope to develop is the multi-employer group market, particularly in Ontario. The recent mergers and acquisitions in the industry are currently creating business opportunities in this market, where we already have operations in Quebec.

We are maintaining our distribution strategy with selected intermediaries with whom we have regular contact, with the goal of becoming the insurer of choice for a growing number of brokers and actuarial consultants. We want to offer value-added service to these intermediaries, particularly with respect to access to financial information concerning their plans.

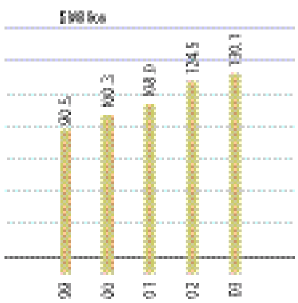
With respect to profitability, the control of operating expenses and the constant follow-up of loss ratios for each benefit and each market segment remain essential factors in the success of this sector. We continue to design practical solutions to simplify plan management for our clients, particularly with respect to plan administration, through technological tools, and the management of disability insurance.

Group Insurance ▪ Creditor Insurance

BUSINESS GROWTH AND MAIN ACHIEVEMENTS IN 2003

In spite of a challenging environment, the Group Creditor Insurance sector had a strong year in 2003. Sales reached $130.1 million in 2003, up by 4% over 2002 (Figure 21). The main source of growth has been the addition of new accounts among car dealers. In particular, the company enjoyed very strong growth in the Quebec market.

21 SALES[1]
GROUP CREDITOR INSURANCE



[1] Single premiums.

This result was achieved in spite of the fact that the automotive market experienced a significant decline in 2003, with overall light vehicle sales down 6%. The main achievement of the Group Creditor Insurance sector in 2003 was thus to continue to grow in a maturing market. This growth was accomplished through:

- Solid organic growth due to the outstanding performance of the distribution network.
- Fast expansion in the Quebec market.
- Increasing property and casualty insurance sales, which were up by 40% to $24 million.
- Strong cost management, which allows the Company to provide competitive pricing.

ENVIRONMENT

As indicated earlier, the automotive market experienced a significant decline in 2003 and projections for 2004 are conservative, with industry analysts predicting that the soft market will continue throughout 2004.

The creditor market also continues to experience consolidation on the dealer and supplier front. We are slowly moving towards a market dominated by a few big insurers. Industrial Alliance *Pacific* continues to be the leader in the industry, with over 40% of the market.

Industrial Alliance also offers creditor insurance through a Canadian bank. The growth prospects for this block of business depend on the bank's creditor insurance distribution strategies.

STRATEGY AND MARKET OPPORTUNITIES

The strategy to develop the Group Creditor Insurance division with car dealers is made up of four key components:

- Continue to grow the creditor business by taking advantage of the Company's strong marketing position in key markets.
- Pursue expansion all across Canada.
- Expand the product portfolio to include other non-creditor products that can increase profitability.
- Pursue efforts to seek out acquisitions when opportunities arise.

To grow our position further will require the Group Creditor Insurance sector to compete aggressively in the marketplace and, at the same time, manage costs effectively to maintain profitability. The main areas where the Group Creditor Insurance sector sees growth opportunities in the market are as follows:

- Improvements in the market share positions in Quebec, Ontario and British Columbia, which are relatively large but

Group Insurance ▪ Creditor Insurance

THE SECTOR AT A GLANCE

The Group Creditor Insurance sector markets creditor insurance (life, disability and critical illness) to automobile and other dealers through a division of Industrial Alliance *Pacific*. These products are offered through an exclusive direct distribution system across Canada. Through Industrial Alliance, this sector also offers some other types of creditor insurance that are marketed through financial institutions.

HIGHLIGHTS OF 2003

- Solid organic growth due to the outstanding performance of the distribution network in spite of a challenging automotive market
- Fast expansion in the Quebec market
- Increased property and casualty insurance sales
- Strong cost management

STRATEGY AND MARKET OPPORTUNITIES

- Continue to grow the creditor business by taking advantage of the Company's strong marketing position in key markets
- Pursue expansion across Canada, particularly in Quebec, Ontario and British Columbia
- Expand the product portfolio to include additional property and casualty insurance products
- Pursue efforts to seek out acquisitions

competitive markets in the country. Industrial Alliance *Pacific* has a strong market position in Western Canada and has experienced strong growth in the Quebec market over the last two years, by leveraging the Industrial Alliance brand awareness in the province. In Ontario, Industrial Alliance *Pacific* has experienced steady but relatively modest growth for a number of years. We believe that there is still strong growth potential in many regions, particularly in the Ontario market.

- Launch of new products, including a dealer participation program and additional property and casualty insurance products. The company has been marketing non-creditor products for third party-companies for a number of years as a means to increase profit margins through commission income. There are many potential products that can be marketed to the automotive market including extended warranties, replacement warranties, GAP insurance and anti-theft products. We feel that there is a significant opportunity for growth in the sale of non-creditor products and we intend to pursue this area aggressively in the future.

The Company's focus, efficiencies and distribution network should support the continued growth of the sector.

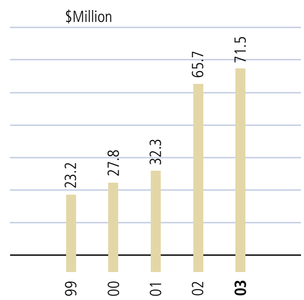
Group Insurance ▪ Special Markets Group (SMG)

Business Growth

The Special Markets Group (SMG) sector had another strong year in 2003 in terms of business growth. SMG net premiums reached $71.5 million in 2003, a 9% increase over 2002 (Figure 22). Net premiums have increased by an average of 33% per year since 1999. SMG have a strong reputation and solid ties with brokers, consultants and agents in the market. These ties have enabled us to form strong, profitable partnerships that continue to lead us to growth. The sources of our growth are:

- In 2002, SMG contracted with large suppliers of travel medical business. This business saw significant growth in 2003.
- In 2001, SMG formed an alliance with an agency to write health insurance for university students. This block grew significantly in 2002 and again in 2003.
- Several large AD&D policies were sold in 2003.
- SMG opened a new sales office in Montreal in early 2003 and is starting to see premiums from this office.
- In British Columbia, the Prairies and Ontario, our excellent sales representatives, market reputation and special risk expertise have enabled us to grow our market share.

22 SALES[1]
GROUP INSURANCE
SPECIAL MARKETS GROUP (SMG)



[1] Net premiums.

Main Achievements in 2003

The main achievement for SMG in 2003 was to continue to grow its business in its primary travel medical and AD&D markets. SMG enjoys a solid reputation in special risk markets, a reputation that has contributed to its growth. It is our ambition to utilize our strong market position to become a leader in this marketplace. The main achievements contributing to the revenue growth in 2003 were:

- Continued growth in the travel medical market.
- Growth in the AD&D market.
- Opening of a sales office in Montreal.

Market Position

As described above, SMG operates in a few different niche markets. Complete market share information is not available for all markets. In AD&D we are third in market share with 9% of the market. We are the only life insurance company that operates in the AD&D market niche. Most of our competitors are property and casualty (P&C) insurance companies. Over the last few years, the P&C companies have been suffering from poor results in other lines of business, and this has been an advantage for SMG. In student accident insurance business, SMG has only one main competitor. SMG dominates the market in Western Canada.

Strategy and Market Opportunities

SMG intends to continue to grow its operations by taking advantage of its strong expertise in special risks, while continuing to expand its operations all across Canada. SMG sees four market opportunities for development:

- Continue to build our presence in Quebec. SMG opened a sales office in Montreal in January 2003, which is staffed by its own personnel. We expect to leverage the Industrial Alliance brand awareness in Quebec and SMG's special risk expertise to build a successful regional office over the next few years.

- Continue to grow in British Columbia and Ontario by making use of our excellent sales people in these regions and increased market awareness of SMG and special risk.
- Look for new niche markets to develop. SMG niche markets are those that are not well serviced by traditional insurance products. They are markets that do not fit the business models of big insurance companies, with room to grow and achieve corporate profitability goals.
- Broaden the product portfolio. We have also been working with major distributors to customize specific products that could be distributed through their distribution network. We intend to pursue this new market opportunity.

Group Insurance ▪ Special Markets Group (SMG)

THE SECTOR AT A GLANCE

The Special Markets Group (SMG) is a division of Industrial Alliance *Pacific* that specializes in certain niche group insurance markets that are not serviced by traditional group insurance carriers.

It offers mainly accidental death and dismemberment (AD&D) insurance marketed to employers and associations, travel medical and health insurance marketed through distribution partners, student accident insurance marketed through brokers to school boards, and term life insurance marketed to alumni associations and other affinity groups. SMG distributes its products from four regional offices with dedicated sales staff in each office. The four offices are located in Vancouver, Calgary, Toronto and Montreal.

HIGHLIGHTS OF 2003

- Continued growth in the travel medical market
- Growth in the AD&D market
- Opening of a sales office in Montreal

STRATEGY AND MARKET OPPORTUNITIES

- Continue to grow the SMG operations by taking advantage of the Company's strong expertise in special risks
- Pursue expansion across Canada, with a specific focus on Quebec, Ontario and British Columbia
- Seek out new niche markets
- Expand the product portfolio by developing new customized products

Group Pensions

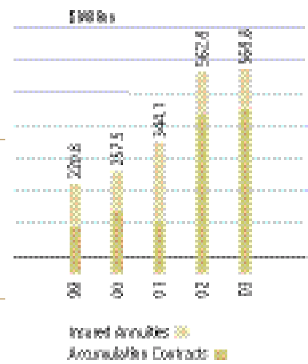
In 2003, Group Pensions achieved all its business growth objectives for accumulation products and insured annuities. Even though sales growth was modest compared to the previous year, the year was marked by strong growth of funds under management.

With respect to accumulation products, we are particularly pleased with four achievements: record sales of new plans, the successful conversion of the second block of business from National Bank Trust, the growth of recurring premiums and the increase in funds under management.

BUSINESS GROWTH

Combined accumulation contract and insured annuity sales reached $568.8 million in 2003, which is 1% higher than the previous year (Figure 23). Sales have grown at an average annual rate of almost 29% in the last five years, excluding the Canadian Medical Association business, which was transferred to an affiliated company a few years ago.

23 SALES[1]
GROUP PENSIONS



[1] Gross premiums and deposits, excluding the Canadian Medical Association from 1999 to 2001.

Accumulation products — Accumulation product sales reached a new record of $456.4 million in 2003, which is 4% higher than the previous year. Three factors contributed to this growth:

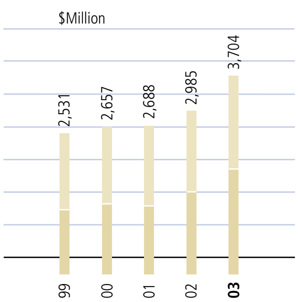
- Recurring premiums totalling $169.2 million (a record), which represents growth of 23% over 2002. Recurring premiums include regular member contributions, which are collected year after year from in-force group clients. These premiums make up our core business, which is the business we are constantly seeking to grow. In 2003, the growth of this core business resulted from our outstanding sales results and the excellent persistency rate of in-force plans.
- The transfer of the second block of business from National Bank Trust. This transfer totalled $187.5 million (the first block, which was transferred in 2002, totalled $213.2 million). The transfer of these two business blocks is one of the most sizeable administrative projects ever completed.
- Almost $100 million in group transfers, a new high for the sector. This corresponds to a 14% increase over the previous year.

Insured annuities — A much more active market in the second half of the year resulted in a strong finish for insured annuities, which ended the year with $112.4 million in sales. Although this result is 10% lower than the previous year, it is in line with our expectations.

The two halves of the year were diametrically opposed in 2003: market activity was relatively slow in the first half and very intense in the second half. We are pleased that we succeeded in acquiring our share (over one quarter) of the business that came onto the market while maintaining a very disciplined pricing approach. Note that, like accumulation products, insured annuities are subject to strong fluctuations from one year to another due to the size of the plans concerned, which can sometimes be quite large.

Funds under management — The assets of funds under management totalled $3.7 billion as at December 31, 2003, up 24% over the end of the previous year (Figure 24). The strongest growth comes from accumulation products, which grew 35% in 2003. Three factors contributed to this growth: the transfer of the second block of business from National Bank Trust, the strong growth of new plan sales and the stock market recovery. For insured annuities, assets grew 15% for the year. This growth is primarily explained by the recapture of business ceded to a reinsurer under conditions we consider to be favourable.

24 FUNDS UNDER MANAGEMENT[1]
GROUP PENSIONS



[1] Excluding the Canadian Medical Association from 1999 to 2001.

Group Pensions

THE SECTOR AT A GLANCE

Group Pensions offers specialized products and services adapted to the needs of retirement plan members. These products and services are divided into two main categories: accumulation products and insured annuities.

Our service offer for accumulation contracts includes administration and investment services for defined contribution plans, defined benefit plans and supplemental executive retirement plans. Members of these plans have access to a wide range of investment products and services. For insured annuities, the Company pays out different types of annuities based on clients' needs.

The sector operates primarily in the medium-sized business market (100 to 1,000 employees), but also manages the plans of several large businesses. The sector's products are distributed through four distribution networks: actuarial consulting firms, specialized pension brokers, specialized group insurance brokers seeking to develop their business potential in the pensions market, and agents and brokers who already distribute the Company's insurance and annuity products. Our sales teams assist the various networks from offices in Halifax, Quebec City, Montreal, Toronto and Vancouver.

HIGHLIGHTS OF 2003

- Record sales of new accumulation product plans
- 24% increase in funds under management
- Successful conversion of the second block of business from National Bank Trust
- Ongoing improvement of our product and service offering

STRATEGY AND MARKET OPPORTUNITIES

- Increase our distribution capacity and sales outside Quebec for accumulation products
- Increase awareness of Industrial Alliance outside Quebec
- Expand our relationships with the different distribution networks across the country
- Implement new methods and introduce new technologies to broaden our service offering
- Increase our penetration in our target market of groups of 100 to 1,000 employees

Main Achievements in 2003

2003 was marked by several major achievements:

- From an administrative standpoint, we completed two major conversions in 2003: the conversion of the second block of business from National Bank Trust, as indicated earlier, and the integration of insured annuities contracts from our National Life subsidiary. All Group Pensions operations for the Industrial Alliance Group have now been integrated and are being administered on the same platform.
- We also introduced an illustration software tool to support the sale of individual retirement plans. This software should help our representatives demonstrate the advantages of individual retirement plans, a very specialized product.
- We developed the materials we need to explain the strict, systematic process we use to monitor the managers with whom we have strategic alliances. These materials are valuable to plan sponsors as they contain all the information they need to duly fulfil their fiduciary responsibilities.
- Finally, we continued to develop our secure website by introducing a series of new options, including the ability to make online contributions.

Strategy and Market Opportunities

Our development strategy can be summed up in four key words that set us apart from our competitors: accessibility, flexibility, innovation and service, and in four fundamental areas of focus that make up our strategy: Canada-wide development, expansion of our distribution networks, improvements to our product and service offering and improved customer service.

Moreover, we are continuing to target primarily the medium-sized business market made up of 100 to 1,000 employees, while seeking to take advantage of opportunities to obtain larger plans.

Accessibility — We want to make our accumulation products more accessible across the country, on the same level as our insured annuities products.

Our first challenge is to build solid bases throughout Canada. We have been serving Quebec for a number of years now, we have been serving the Ontario and the Atlantic provinces for about the last three years, and we recently began serving Western Canada. Our goal over the next year is to expand distribution to develop our business, primarily outside Quebec.

Our second challenge is to grow our distribution networks. We want to expand the core of brokers with whom we do business in all regions of Canada. We also want to increase awareness of Industrial Alliance among actuarial consulting firms, to which we are actively promoting the quality of our service offer, particularly outside Quebec where we are relatively unknown.

We hope the Company's advertising campaign, which aims to strengthen the Industrial Alliance brand name outside Quebec, will be a step towards achieving this goal.

Flexibility and innovation — We are positioning ourselves as a service provider that is attentive to the needs of its clientele; a service provider that constantly improves its product and service offering to respond to new market needs. Our dynamic asset management services, personalized investment solutions, tools favouring increased integration of the assets and liabilities of defined benefit plans, and training applications for market intermediaries operating in our sector are just some of the innovations that show our willingness to demonstrate our expertise. They also show our strong desire to have the Industrial Alliance Group stand out from the other service providers in the sector.

Service — Our specialized sales teams work with the various distribution networks to promote our products, assist brokers in the sales process and answer the needs of plan sponsors and members.

Our stable, competent and experienced administrative units (Industrial Alliance has a very low turnover rate) are able to provide fast, superior quality service. We can go even further in this area by making sure we appoint people whose mandate is to optimize work methods and identify technologies to help us improve our service.

All in all, our goal is to be recognized as a dynamic, Canada-wide service provider, combining accessibility, flexibility, innovation and quality service.

Investments

ECONOMIC AND FINANCIAL ENVIRONMENT

2003 was a year full of many new developments on the economic front. The war in Iraq, the U.S. economic recovery, the slowdown in Canadian economic growth, the appreciation of the Canadian dollar and the increase in the price of raw materials all had their impact on financial markets in 2003.

During the last year, U.S. authorities continued to carry out activities to stimulate and sustain the country's economy. The U.S. central bank continued its program of rate cuts begun in 2001. U.S. federal rates are now at 1%, their lowest level in 45 years. Government intervention came not only in the form of its monetary policy, but also in its fiscal policy. The U.S. government continued to back consumers by sending them tax credits in the form of cheques. These measures allowed the U.S. economy to grow at a steady rate, with GDP growing by 3.1% in 2003.

Canada, on the other hand, experienced a slowdown in growth in 2003. Canadian GDP is expected to grow an estimated 1.6% in 2003, compared with 3.3% in 2002. However, the economy was affected by several outside events, such as SARS, mad cow disease, the forest fires in BC and the blackout in Ontario, as well as the Canadian dollar's rise against its U.S. counterpart, which slowed the growth of Canadian exports to the U.S. Despite everything, Canada is still in good standing; it is the only G-7 country to show a double surplus (current account and public finances). The U.S., meanwhile, has deficits on both fronts. U.S. economic growth should also eventually reflect on Canadian growth.

As for the financial markets, after two consecutive years of negative returns for the Canadian stock market and three for the U.S. stock market, 2003 offered fine rewards for investors. For example, in the last twelve months, the S&P/TSX—the index that measures the Canadian stock market—has appreciated 26.7%. Unfortunately, the Canadian dollar's rise against its U.S. counterpart hurt Canadians who invested in the U.S. over the last year. In 2003, although the S&P 500, representing the U.S. stock market, posted a similar return to its Canadian counterpart when measured in U.S. dollars, increasing 28.7%, it grew only 5.3% when measured in Canadian dollars (return obtained by a Canadian investor who invested in the U.S.).

In the bond market, in spite of a low interest rate environment, outstanding stock market performances, higher commodity prices and a weakened U.S. dollar, fixed-income securities performed rather well. For 2003, the Scotia Capital Universe bond index posted a return of 6.7%. This return was fostered by low inflation, the U.S. Federal Reserve's intention to keep its key interest rates low for as long as necessary, and the increased presence of Japan and China on the U.S. bond market, with a goal of keeping the relative value of their currency consistent with that of the U.S.

NET INVESTMENT INCOME

The stock market appreciation of the last year completely changed the dynamics of investment income. Net investment income totalled $677.3 million in 2003, an increase of $227.1 million compared to 2002 (Figure 25). Of this increase, $169.4 million is attributable to Universal Life policies (and therefore does not impact the Company's profit). This leaves a favourable variance of $57.7 million, primarily resulting from the provision taken for Teleglobe in the first quarter of 2002 and the higher revenues generated by the stock and bond portfolios, whose average assets were higher in 2003 than in 2002.

25 GENERAL FUNDS NET INVESTMENT INCOME

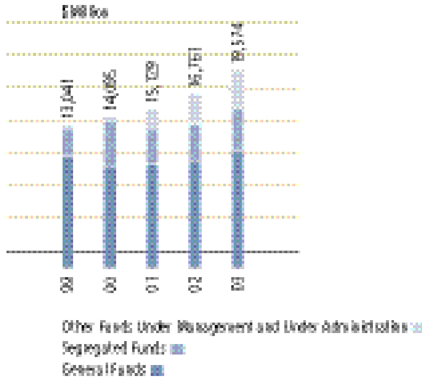
$Million	2002	**2003**	Variation
Net Investment Income	450.2	**677.3**	227.1
Less: Amounts Attributed to Universal Life Policy Index Accounts	(112.5)	**56.9**	169.4
	562.7	**620.4**	57.7

ASSETS UNDER MANAGEMENT AND UNDER ADMINISTRATION

Assets under management and under administration almost reached the $20 billion mark in 2003, totalling $19.6 billion as at December 31, 2003, a 17% increase for the last twelve months (Figure 26). Five factors contributed to this growth:

- Strong growth in premium income, including the revenue from the transfer of the second block of business from National Bank Trust in the Group Pensions sector.
- The growth of the Company's mutual fund distribution subsidiary, Investia, whose assets reached the billion dollar mark at the end of 2003, partially due to the acquisition of the Global Allocation Financial Group business.
- The contribution by the Company's new mutual fund management subsidiary, Industrial Alliance Mutual Funds, which began operations towards the end of the year.
- The growth of the Company's new securities subsidiary, Industrial Alliance Securities, which ended its first complete year of operations with $450 million in assets.
- The stock market recovery.

26 ASSETS UNDER MANAGEMENT AND UNDER ADMINISTRATION

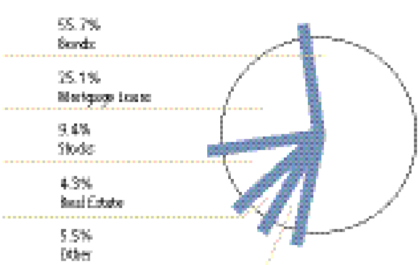


Today, the Company's assets under management and under administration are composed of the general fund assets of the Group's companies, which represent $10.3 billion (average annual growth of 5% in the last five years), segregated fund contract assets totalling $5.0 billion (average annual growth of 15% in the last five years), as well as $4.2 billion in other assets under management and under administration (five years ago the Company didn't have any "other assets under management and under administration").

INVESTMENT PROGRAM

The Company's insurance and annuities investment operations are primarily concentrated in fixed-income securities (particularly bonds and mortgage loans) (Figure 27). The assets related to the Company's surplus are essentially used for long-term growth and the optimization of the after-tax return.

27 DISTRIBUTION OF INVESTMENTS BY ASSET CATEGORY
GENERAL FUNDS
AS AT DECEMBER 31, 2003



The stocks and market indices portfolio grew rapidly in 2003, increasing from $720.1 million as at December 31, 2002, to $930.3 million as at December 31, 2003, an increase of 29%. About half of this increase comes from purchases of new fund units and the market appreciation, while the other half results from transfers of amounts invested in swaps into fund units.

The Company holds swap contracts that are calculated according to a notional amount of $396.1 million. These agreements are used for managing financial risks, in particular those associated with interest rate and market value fluctuations, and for investing a portion of the surplus of the Group companies.

Investments

THE SECTOR AT A GLANCE

The Company's investment activities are divided into three sectors: General Fund and Segregated Fund Investments, Mortgage Loans, and Real Estate Investments. Although the asset management activities for these sectors are carried out in Quebec City, Toronto and Vancouver, these activities are coordinated under a common leadership. The purpose of this structure is to make optimal use of resources and have all companies in the Group benefit from the knowledge and expertise developed by each one.

The objective of general fund investments is primarily to ensure capital protection while providing optimal returns, whereas the objective of segregated fund investments is to maximize total return for unit holders while controlling risk of capital loss, in accordance with the investment policies of each fund.

In 1996, the Company began entrusting the management of certain segregated funds to external managers so that clients would have a wider choice of investment vehicles and management styles.

HIGHLIGHTS OF 2003

- Assets under management and under administration: $19.6 billion, a 17% increase
- Quality of investments continues to be excellent
- Net impaired investments at their lowest level in the last decade: 0.20% of all investments (0.22% in 2002)
- Bond portfolio
  - No defaults in 2003
  - Bonds rated BB and lower: 0.13% of the portfolio (0.11% in 2002)
- Mortgage loans portfolio
  - Delinquency rate: 0.86% (0.74% in 2002)
  - Proportion of insured loans: 48.6% (45.3% in 2002)
- Occupancy rate of real estate holdings: 93.9% (92.1% in 2002)
- Very strict matching: difference in duration of 0.14 years
- Proportion of segregated funds whose one-year return is above the median: 63% of assets

The current credit risk, which corresponds to the amounts payable to us by the various counterparties, was $9.6 million as at December 31, 2003 ($7.4 million as at December 31, 2002). The future credit risk associated with these agreements, which represents the amount that the counterparties could eventually owe us according to various market scenarios, is $17.7 million as at the same date ($27.8 million in 2002). All counterparties with whom we have signed such agreements are high quality financial institutions.

In accordance with sound asset management principles, the Company's investments are well diversified among issuers and operating sectors, as well as geographically, according to the source of business by region.

Asset and Liability Matching

Although obtaining a steady improvement in returns is a day-to-day concern of the Company's portfolio managers, our general fund investment policies focus primarily on capital protection and the maintenance of strict matching between the asset and liability financial structures in order to protect the Company against the risks associated with interest rate and market value fluctuations.

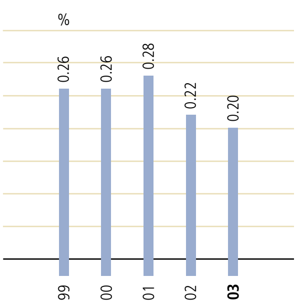
As at December 31, 2003, the spread between the duration of Company assets and liabilities was 0.14 years, well within the ±0.25-year tolerance level stipulated by our investment policies. This statistic excludes the very-long-term commitments portion of the individual insurance and annuities products for which we favour an active management strategy aimed at maximizing the return of a high-quality investment portfolio.

Quality of Investments

There were very few changes in the quality of investments during the year, so that the general quality of the various portfolios remained excellent.

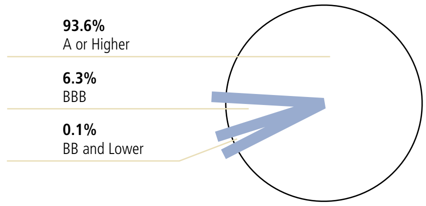
Hence, net impaired investments, excluding insured mortgage loans, were more or less stable during the year, reaching $19.8 million as at December 31, 2003, which represents 0.20% of total investments (0.22% as at December 31, 2002) (Figure 28). This is the lowest rate in the last ten years. Net impaired investments are made up of bonds and conventional mortgage loans in arrears for three months or more, as well as restructured loans and other defaulted investment securities, taking into account any provisions set up in consideration of these assets.

28 NET IMPAIRED INVESTMENTS AS A PERCENTAGE OF INVESTMENTS



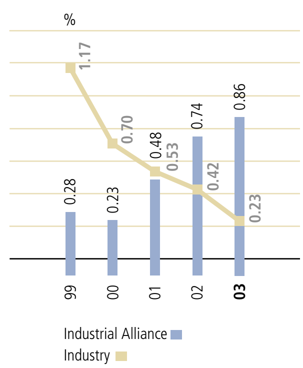
No bonds defaulted during the year and the bond portfolio continues to be of very good quality. In accordance with the rules defined in the investment policies, the Company invests in bonds whose credit rating is BBB or higher when they are acquired. As at December 31, 2003, 93.6% of the bond portfolio was made up of quality A or higher bonds (92.2% as at December 31, 2002) and bonds rated BB and lower represented just 0.1% of the portfolio (Figure 29). Bonds rated BB or lower represented $7.4 million of a $5.5 billion portfolio.

29 DISTRIBUTION OF THE BOND PORTFOLIO BY CREDIT RATING
AS AT DECEMBER 31, 2003



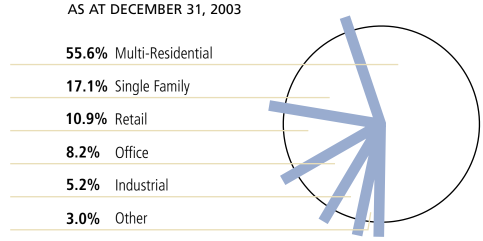
The quality of the mortgage loans portfolio is also good. The proportion of delinquent loans as at December 31, 2003 was 0.86% (0.74% as at December 31, 2002) (Figure 30). This figure includes both insured and uninsured loans, with insured loans accounting for 42.2% of delinquent loans. The delinquent loans are a result of four loans in particular, which represent just over 80% of the arrears. According to a survey by the Canadian Life and Health Insurance Association, the industry delinquency rate was 0.23% at the end of 2003.

30 DELINQUENCY RATE OF THE MORTGAGE LOANS PORTFOLIO



Virtually all mortgage loans are secured by first mortgages. Furthermore, as at December 31, 2003, 48.6% of the portfolio was made up of insured loans (45.3% as at December 31, 2002), and 72.7% of the loans were secured by single-family residential or multi-unit residential properties (Figure 31).

31 DISTRIBUTION OF THE MORTGAGE LOANS PORTFOLIO BY TYPE OF PROPERTY
AS AT DECEMBER 31, 2003



The occupancy rate of the Company's real estate portfolio remained very high throughout the year and even increased slightly since mid-year. The occupancy rate was 93.9% as at December 31, 2003 (92.1% as at December 31, 2002) and compared very favourably with that of commercial rental properties in large Canadian cities.

Investments in equity securities are used to match very-long-term commitments, to cover the commitments on certain Universal Life policies, or to invest a portion of the Company's capital. The stock market upturn boosted the market value of the stock and market indices portfolios to 102.9% of the book value as at December 31, 2003 (96.1% as at December 31, 2002).

Note that stock market fluctuations have very little direct impact on the Company's net income. In fact, 66% of the stock and market indices portfolio, which totalled $930.3 million at the end of 2003, was composed of assets that are used for matching the Company's very long-term commitments and Universal Life insurance policies. Any fluctuation in the value of these assets has no impact on the Company's income. Furthermore, 20% of the portfolio is made up of preferred shares backing capital.

INVESTMENT FUND PERFORMANCE

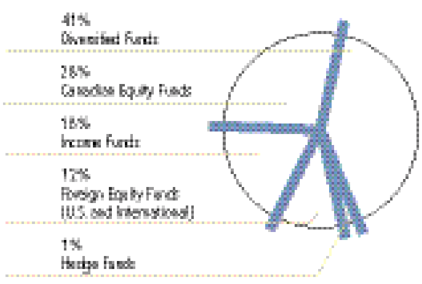
The Industrial Alliance Group offers a wide variety of investment funds designed for its individual and group clients (excluding independent retirement plans). In total, the Company's family of funds includes over 100 different funds. Of this number, 44 belong to the retail sectors' main family of funds, and 64 belong to the group sectors' main family of funds.

In the retail sector, we added four new funds in 2003, two new income trust funds and two hedge funds. The income trust funds are managed by our team of in-house managers. This type of fund has had a great deal of success in Canada over the last few years, both in terms of returns and asset accumulation. As for the hedge funds, they are managed by external managers. Also of note with these funds is that the Industrial Alliance Group is the first insurance company in Canada to offer this type of fund under a segregated fund structure.

No new funds were launched in the group sectors in 2003. The group family of funds is still made up of 64 funds, offering excellent diversification in terms of asset classes, management styles and geographic regions.

Overall, our family of funds offers the ability to invest in each of the major asset classes (Figure 32), along with good geographic diversification. Our numerous alliances with external management firms (now totalling 20) enable our clients to benefit from the expertise and experience of our in-house managers as well as our reputable external managers with a variety of management styles.

32 DISTRIBUTION OF INVESTMENT FUNDS BY FUND CATEGORY
AS AT DECEMBER 31, 2003



Our in-house managers are responsible for managing 38 funds, representing 70% of our total assets under management. In the course of their management activities, they conduct an in-depth analysis of the North American economic environment and the Canadian markets. Our external managers are responsible for managing a total of 75 funds.

The total net assets of the investment funds grew from $3,588 million as at December 31, 2002 to $4,486 million as at December 31, 2003, an increase of 25%. The strong growth of the stock markets, particularly the Canadian markets, accelerated the asset growth. In terms of fund sales, net fund in-flows totalled $408 million in 2003. The change in total net assets of the investment funds in 2003 is illustrated in Table 33.

33 VARIATION OF NET INVESTMENT FUND ASSETS

$Million	
Balance as at December 31, 2002	3,588
Net Unit Issues	408
Operating Expenses	(90)
Net Investment Income	580
Balance as at December 31, 2003	**4,486**

In a stock market recovery environment, the Industrial Alliance Group family of funds offered good returns in 2003. In fact, 55 funds, representing 62% of net investment fund assets, generated an above-median return in 2003 (Table 34). As for the in-house managed funds, 72% of the net assets of these funds provided an above-median return.

Even when considered over longer periods, the performance of our funds is still exceptional. Over 70% of the assets in our funds recorded an above-median performance over a three-year, five-year and ten-year period.

34 RELATIVE PERFORMANCE OF INVESTMENT FUNDS
GROSS ONE-YEAR RETURN
AS AT DECEMBER 31, 2003

	Above-Median Yield	Below-Median Yield	Funds in Existence Less than 1 Year
Number of Funds	**55**	**52**	**6**
Assets ($Million)	**2,649**	**1,527**	**65**
As a % of Assets	**62%**	**36%**	**2%**

The return on our investment funds and the detailed financial information associated with these funds are presented in the investment funds' annual and semi-annual financial reports prepared jointly by the three life and health insurance companies of the Industrial Alliance Group.

Risk Management

In the course of its operations, Industrial Alliance faces a variety of risks. In all cases, the Company applies a principle of prudence in its business decisions, seeking to obtain a balance between the protection of policyholders' interests and the optimization of value for the shareholders.

As prescribed by the regulatory authorities, the Company has implemented a policies and procedures program pertaining to standards of sound business and financial practices. The principles of risk management are an important part of this program, which has been approved by the Board of Directors.

RISK MANAGEMENT PRINCIPLES AND RESPONSIBILITIES

Risk management primarily aims to identify all risks that the Company is exposed to in the course of its operations, and to understand all aspects of these risks.

The Board of Directors is responsible for making sure there are management systems in place for properly identifying and assessing the material risks to which the Company is exposed.

The managers of the Actuarial and Investment sectors have specific responsibilities with regard to insurance and investment risk management because of their role in the valuation of commitments to policyholders, product pricing, investments and asset and liability matching.

The Company's responsibility in this regard includes developing, updating and enforcing risk management guidelines. These guidelines define the Company's position regarding the risks it may be exposed to, the scope and nature of the risks it is prepared to take, the establishment of risk tolerance limits, as well as the various risk control and monitoring programs that need to be implemented. Those responsible for risk management must also make sure that accurate and timely information that can help evaluate risk is available at all times.

The main risks to which the Company is exposed are divided into three categories:

- Insurance Risk
- Investment Risk
- Other Risks

A summary of these risks and the process for managing them is outlined below.

INSURANCE RISK

Insurance risk is subdivided into three categories: product design and pricing risk, underwriting and liability risk, and credit risk related to reinsurance.

Product Design and Pricing Risk — Product design and pricing risk is the risk that the established price is or becomes insufficient to ensure an adequate return for the shareholder as compared to the Company's profitability objectives. This risk may be due to an inadequate assessment of market needs, a poor estimate of the future experience of several factors, such as mortality, morbidity, lapse experience, future returns on investments, expenses and taxes, as well as the introduction of new products that could adversely impact the future behaviour of policyholders.

For certain types of contracts, all or part of this risk may be transferred to the policyholder through a dividends and returns policy, or through the fact that the Company can adjust the premiums or future profits if experience turns out to be different than expected. For other types of contracts, the Company assumes the entire risk, thus the need to carry out a proper valuation of the commitments in this regard.

The Company has adopted a product design and pricing policy that establishes standards and guidelines on pricing methods, formulation of assumptions, profitability objectives, analysis of the sensitivity of this profitability according to various scenarios, documentation, and the accountability of the various people involved.

The risk is primarily managed by regularly analyzing the pricing adequacy of Company products as compared to recent experience. The pricing assumptions are revised as needed and/or the various options offered by the reinsurance market are utilized.

Underwriting and Liability Risk — Underwriting and liability risk is the risk of financial loss resulting from the selection of risks to be insured, adjudication of claims and management of contract clauses. Unfavourable results in these areas can lead to deviations from the estimates based on the actuarial assumptions, particularly in terms of mortality, morbidity and lapse experience. The Company has adopted detailed standards in this regard, and ensures adherence to these standards, which are reviewed periodically.

In its standards of sound business and financial practices, the Company has established guidelines pertaining to underwriting and liability risk which have been approved by the Board of Directors, and which specify the Company's retention limits. These retention limits vary according to the type of protection and the characteristics of the insureds, and are revised regularly according to the Company's capacity to manage and absorb the financial impact associated with unfavourable experience regarding these risks. Once the retention limits have been reached, the Company turns to reinsurance to cover the excess risk. The selected reinsurers must meet minimum financial soundness criteria (see Credit Risk Related to Reinsurance, below). The Company also has a facultative reinsurance policy for substandard risks.

Catastrophe reinsurance is also used with reinsurers to protect against the eventuality that four or more people are involved in the same event. Following the events of September 11, 2001, this coverage has become more expensive and the Company has made the changes it deems necessary in order to satisfy its coverage needs, particularly when it comes to acts of terrorism.

Credit Risk Related to Reinsurance — Even though the Company relies on reinsurance to manage the underwriting and liability risk, reinsurance does not release the Company from its primary commitments to its policyholders. Therefore, the Company is exposed to the credit risk associated with the amounts ceded to reinsurers. The Company assesses the financial soundness of the reinsurers before signing any reinsurance treaties and monitors their situation on a regular basis. If need be, it can eliminate certain risks by using letters of credit and by depositing cash amounts in trust accounts.

Investment Risk

Investment risk is sub-divided into five categories: interest rate risk, risk of stock market downturn, foreign currency risk, credit risk and liquidity risk.

The Company is exposed to various investment risks, i.e. the risk that investments will sustain losses or will not produce the expected returns. The Company has established investment policies that contain a variety of measures designed to limit the impact of these risks. The investment policies are reviewed annually and any modifications are submitted to the Board of Directors for approval. Policy management and compliance is monitored regularly and the results are reported to the Board of Directors Investment Committee at least quarterly.

Interest Rate Risk — Interest rate risk is the risk of loss due to changing interest rates. The Company manages this risk through an asset and liability matching policy which is updated periodically. The primary objective of this policy is to minimize the volatility of profit margins caused by fluctuations between the realized returns and those credited to existing contracts. To monitor matching, investments are segmented by matching blocks established based on the cash flow structure of the liabilities, with the blocks being grouped together by line of business. Asset and liability matching is a very elaborate process, and one that is strictly monitored.

The concept of *duration* is used to measure sensitivity to interest rate fluctuations. The difference between the duration of the assets and the duration of the liabilities is subject to limits defined in the asset and liability matching policy, and is strictly managed. Dispersion measures and limits are also used in order to take into account the non-linear dimension of this relationship.

Even if the duration of the assets is well matched to the duration of the liabilities, the Company may be exposed to reinvestment risk, to the extent that the maturity of the assets does not correspond to that of the liabilities. In order to control this risk, the Company has implemented a process within its matching policy whereby it must make sure that the asset cash flows tend to correspond to the liability cash flows.

The matching policy calls for the use of deterministic scenarios to evaluate the sensitivity of future margins incorporated into the valuations to different interest rate fluctuation scenarios. The same policy also imposes limits as to the sensitivity level of the matching situation using more than 500 stochastic scenarios.

For the Company's annuity portfolios, which represent 44.5% of the general fund actuarial liabilities, the Company estimates that an immediate and permanent decrease of 1% in interest rates would lead to a $0.6 million reduction in net earnings.

For the Company's insurance portfolios, the Company estimates that, all other things being equal, an immediate decrease of 1% in expected interest rates (i.e., a parallel shift in assumed interest rates across the entire yield curve) would lead to a decrease in net earnings of some $51 million.

Risk of a Stock Market Downturn — The risk of a stock market downturn represents the risk of financial loss resulting from a downturn in the stock markets. A stock market downturn can impact the management fees collected on segregated funds and universal policy index accounts, the charge resulting from the capital guarantee offered on these same segregated funds, as well as on the return of assets backing the capital and, to a lesser extent, the Company's general fund actuarial liabilities. The Company estimates that a 10% drop in the stock market lasting for one full year would lead to a decrease in net earnings of some $10 million.

In order to ensure sound management of the risk of a stock market downturn, the Company's investment policies clearly define quantitative and qualitative limits for the use of shares. The target asset composition in the form of shares is established in order to maximize the Company's returns and reduce the potential risk concerning guaranteed minimum returns under long-term commitments.

Foreign Currency Risk — Foreign currency risk represents the risk that the Company assumes from losses due to exposure to foreign currency fluctuations. The Company has adopted a policy to avoid exposing itself to foreign currency risk. To this end, liabilities must be matched with assets of the same currency and any exposure to the risk of foreign currency fluctuations must be covered.

Credit Risk — Credit risk is the risk that counterparties or debtors will not respect their obligations to the Company. The Company's investment policies aim to limit this risk by ensuring the sound diversification and relatively high quality of the counterparties or debtors, and through limited exposure to the same issuer. Among other things, these policies stipulate that the Company cannot acquire investments whose credit rating is lower than BBB low. They also impose limits by group of related issuers that depend on the credit quality of these issuers, by operating sector and by geographic region.

Liquidity Risk — Liquidity risk is the risk that there will be insufficient funds available to honour all Company commitments as they fall due. This risk is managed through strict matching of assets with liabilities. In addition to having a very low mismatch tolerance, the Company manages this risk through strict management of its cash resources. Moreover, to maintain an appropriate level of liquidity, the Company makes sure it holds a good proportion of its assets in marketable investments. As a management tool, the Company produces different reports designed to demonstrate the level of liquidity based on different scenarios.

Other Risks

Other risks include the following three risks: insolvency risk, compliance risk (legal and regulatory risk) and operational risk.

Insolvency Risk — Insolvency risk is the risk that the Company will not be able to meet the demands of future claims as they arise. The regulatory authorities closely monitor the solvency of insurance companies by requiring them to comply with strict solvency standards based on the risk assumed by each company with respect to asset composition, liability composition, and the matching between these two components. The Company is required to submit regular reports to the regulatory authorities regarding its solvency. It also publishes its solvency ratio every quarter. The minimum solvency ratio targeted by the Company is 175%, which is much higher than the regulatory authorities' requirement.

To measure the degree to which the Company is able to meet regulatory solvency requirements, the appointed actuary must present an annual report to the Audit Committee and management on the Company's current and future solvency. In this report, entitled *Dynamic Capital Adequacy Testing*, the appointed actuary must identify the main risks that can affect the Company's solvency, measure the potential impact of these risks, and specify ways to alleviate them. Interest rate fluctuations, a stock market downturn and fluctuations in demographic variables are among the scenarios analyzed.

According to the most recent *Dynamic Capital Adequacy Testing* scenarios presented to the Board of Directors, even in the absence of corrective measures by management, the Company's solvency remains higher than the standards set out by the regulatory authorities for all scenarios analyzed by the actuary.

Compliance Risk (Legal and Regulatory Risk) — Compliance risk arises from non-compliance with the laws, regulations or guidelines applicable to the Company as well as the risk of loss resulting from non-fulfilment of a contract. The Company is subject to strict regulatory requirements and detailed monitoring of its operations in all provinces or states where it conducts business, either directly or through its subsidiaries. To manage this risk, the Company has specialized resources in its Legal Department and outside the Company, and works together with the industry to implement the procedures required to comply with any new legislation or guidelines, and to analyze and process the execution of its contracts.

The Board of Directors Audit Committee of Industrial Alliance, as well as that of its subsidiaries, periodically receive reports on all lawsuits, whether they be in the normal course of business, where the contesting of certain claims appears normal, or outside the normal course of business. In certain cases, the opinion of the internal Legal Departments is backed by independent experts and sufficient provisions are taken when deemed necessary.

A few years ago, the Company introduced an annual sound business and financial practices program in accordance with regulatory and company requirements. Under this program, the managers of each division of the parent company and its subsidiaries are asked to submit an action program at the beginning of the year that includes a plan to review existing standards and practices, and a self-evaluation plan. A consolidated report is then prepared and submitted to the Audit Committee and the Board of Directors. The evaluation reports are examined by Internal Audit, and a final report is submitted each year to the regulatory authorities in the prescribed format.

Operational Risk — Operational risk arises from uncertainty related to the financial consequences of problems resulting from the execution of business functions or processes, and can result from deficiencies or breakdowns in internal controls or processes, technology failures, human error, dishonesty and natural disasters.

The Company has established standards and procedures to ensure that appropriate and effective internal controls are developed and implemented to manage operational risk, and that reliable and comprehensive systems are in place to properly monitor the effectiveness of these controls on a regular basis. Management actively oversees its operations, and in order to manage the operational risk, has implemented a very detailed business resumption plan regarding both the physical occupancy of the premises and the information systems. In addition, the Company has procedures in place in all of its offices to minimize any disruption in service in the event of a natural or other disaster. These procedures are reviewed and tested on a regular basis.

The Company places special emphasis on the data processing risk. In fact, it has developed a comprehensive plan for controlling this risk based on the ISO international standard. This standard presents the major risk categories associated with information technologies, of which four are of particular relevance to the Company's activities: risk associated with the non-availability of essential components (this risk is controlled by the implementation of a business resumption plan), risk of outside penetration of our systems (this risk is controlled by installing firewalls), risk of loss of data integrity (this risk is controlled through anti-virus management), and risk of unauthorized access to information (this risk is controlled by implementing security policies). The management of these risks is reviewed regularly in order to adapt it to changing technologies and Company needs.

The Board of Directors and its committees supervise actions taken by management in risk management matters through annual reviews of the main risk management policies and practices or within the standards of sound business and financial practices imposed by the regulatory authorities, and through reports written by the Internal Audit Department and by independent auditors.

Corporate Social Responsibility

The member companies of the Industrial Alliance Group, which are present across Canada, each share the same level of commitment and responsibility towards their employees and the communities they serve.

The following is an overview of the various programs and achievements made by Industrial Alliance Group companies in terms of human resources and community commitment as well as steps that are being taken to help protect the environment.

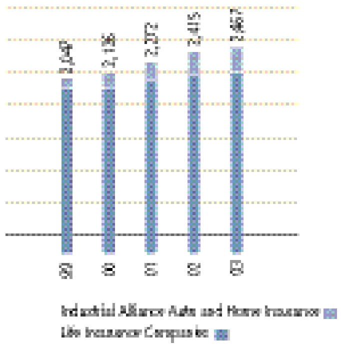
The Industrial Alliance Group is composed of three life insurance companies: Industrial Alliance, the parent company, National Life and Industrial Alliance *Pacific*; a general insurance company, Industrial Alliance Auto and Home Insurance; as well as a number of other companies (see the IAG Organization Chart on page 13).

HUMAN RESOURCES

Industrial Alliance Group companies wish to provide their employees with a workplace environment that allows them to grow as individuals while also being able to fulfil their professional aspirations. To achieve this, each Group company has implemented several programs and policies over the years in order to provide employees with a work setting that fosters growth, enrichment and personal development.

At the end of 2003, the Group's life and general insurance companies had 2,467 employees, 52 more than at the end of the previous year (see Figure 35). Since 1999, the number of employees working at these companies has grown by 420. This increase is yet more evidence of the rapid growth experienced by the Industrial Alliance Group over the last few years.

35 NUMBER OF EMPLOYEES



Training — Industrial Alliance Group companies offer their employees a number of training programs that allow them to continue perfecting their skills. These programs are offered either in the workplace or at a recognized learning institution. Training programs are offered in all areas of the insurance sector, including basic insurance concepts, client service, underwriting, claims, actuarial services, accounting and many other fields. Additional programs are also available to help employees master the use of various software tools, learn a second language, plan their retirement, and so on.

In Quebec, Industrial Alliance rigorously adheres to the *Act to foster the development of manpower training* by investing the equivalent of at least 1% of its total annual payroll in training. In this respect, the Company goes far beyond current government requirements.

Staffing and employee participation programs — To favour internal mobility, Industrial Alliance has implemented an internal job posting system. This system lists various Company positions that become available and for which all employees are eligible to apply.

Through a corporate incentive and recognition program, Industrial Alliance encourages employees to come up with ways to improve their work methods. This program, called OSE, celebrated its 10th anniversary in 2003, a life span rarely seen in programs of this nature. The OSE Program's longevity is due to the sustained participation of employees who, in ten years, have submitted close to 5,000 ideas. More than 10,000 Supers! have also been awarded to employees by fellow colleagues and managers to underline their exceptional collaboration in a given project.

Employment equity and occupational health and safety — All Industrial Alliance Group companies scrupulously apply federal and provincial legislation pertaining to the participation of women, visible minorities, aboriginals and the handicapped in the workplace, as well as laws governing occupational health and safety.

Quality of life of employees — In order to add to the quality of life of its employees, flexible work hours were introduced at Group company offices in Montreal, Toronto and Vancouver. Since 2003, head office employees in Quebec City have had adjustable work hours, thus allowing them to start and finish work according to their personal priorities and Company needs.

Remuneration — With regards to remuneration, Industrial Alliance implemented a performance appraisal program in 2002. This program is aimed not only at justly recognizing an employee's individual contribution but also at allowing them to take part in their own professional advancement through the establishment of objectives with their supervisor.

All employees of Group life companies are also eligible to receive a corporate bonus according to the level of profits earned by the Group over the course of the year. The corporate bonus, which was introduced in 2001, is based on the shareholder net income registered by all Group companies (Industrial Alliance's consolidated earnings). In 2003, the Group's excellent financial performance allowed the Company to award employees a bonus equivalent to 4% of their annual salary, the maximum percentage employees are entitled to receive.

COMMUNITY COMMITMENT

Member companies of the Industrial Alliance Group have always viewed their commitment to the community as a natural extension of the values that have allowed them to grow and flourish over the years. In addition to ensuring the financial security of the individuals they serve, Industrial Alliance Group companies also aim to improve the quality of life of their surrounding community through donations, sponsorships, and recognition programs.

Donations — As a member of the Imagine Program, Industrial Alliance donates 1% of its pre-tax profits to organizations that play a key role in helping their communities. In 2003, the Company provided support to a number of organizations, primarily in the health, education and social service sectors.

In the health sector, Industrial Alliance, in concert with the University of Montreal, the Maisonneuve-Rosemont Hospital and its foundation, created the Industrial Alliance Chair in Leukemia Research at the University of Montreal. The Company also made a donation to the Prostate Cancer Chair at the university's medical faculty in order to encourage and intensify research into this disease.

National Life supports the Easter Seal Society, a foundation that comes to the aid of children with physical disabilities, and also contributes to a large number of health and community organizations, including hospitals and higher learning institutions throughout Canada.

In the education sector, Industrial Alliance made a major donation to the Cégep de Sainte-Foy Foundation. This donation allowed the college to set up a new insurance training lab that will help ensure the continued quality training of future insurance professionals. Industrial Alliance *Pacific* also made a significant donation to Simon Fraser University in British Columbia for its MBA program.

In the social services sector, all Industrial Alliance Group employees are involved, either directly or indirectly, in the United Way's annual fundraising campaign. In 2003, more than $320,000 in corporate and employee donations were collected across the country as part of various fundraising activities. National Life was awarded the Spirit Employee Campaign Award in recognition of its fundraising efforts and increased participation and support for United Way activities.

In addition to the financial support provided through individual and corporate donations, Industrial Alliance also releases one of its Quebec City head office employees each year for several months in order to help organize the United Way's regional campaign.

National Life has also been actively involved in the Mid-Toronto Community Services Meals on Wheels Program for a number of years.

Sponsorships — All across Canada, through its corporate sponsorship program, Industrial Alliance provides financial support primarily to family-oriented events and proudly takes part in various activities and shows that favour participation on either a local, regional or national scale. Here are but a few examples of our continued involvement.

In British Columbia, Industrial Alliance *Pacific* continued to lend its support to various artistic events in and around Vancouver throughout 2003. Among its contributions, Industrial Alliance *Pacific* jointly presented the E. J. Hughes Retrospective Exhibition at the Vancouver Art Gallery. It was also the title sponsor of an event held during the 2003 Festival Vancouver, a music festival that features music performed by professional musicians from around the world. Industrial Alliance *Pacific* was a presenting sponsor for the third consecutive year of a play presented by the Arts Club Theatre Company. It also continues to sponsor the Arts Umbrella, an organization whose goal is to provide young people with access to quality training in the arts.

National Life continues to lend its support to cultural and sporting events in the Toronto area, such as the Community Youth sponsorship program, which helps children of employees to participate in academic or athletic pursuits. National Life also takes part in the Take Our Kids to Work™ Program, which encourages youth to explore careers in the financial services industry.

Also in Ontario, Industrial Alliance was the title sponsor of the Industrial Alliance KiteFest, an annual event that attracts competitors from around the world.

In Quebec, Industrial Alliance renewed its partnership with the Quebec Firefighters Foundation for Major Burn Victims and took part in various fundraising activities held throughout the province in 2003.

Industrial Alliance also continues to pledge its support to the artistic community. For instance, the Company again renewed its partnership with Cirque Éloize in the presentation of their new show. Industrial Alliance equally renewed its partnership with the Quebec Symphony Orchestra in the presentation of the Industrial Alliance Family Concert Series, as well as its agreement with the Domaine Forget International Festival for the Jeudis Jazz Concert Series. Finally, Industrial Alliance was the title sponsor of *Pinocchio*, a multifaceted ice skating show that was presented in Quebec City during the 2003 Holiday Season to thousands of families from in and around Quebec City.

Recognition programs — Through an internal financial support program, Industrial Alliance supports employee initiatives and volunteer work aimed at collecting donations for recognized humanitarian organizations.

PRESERVING THE ENVIRONMENT

In 2003, Industrial Alliance established the general outline of its corporate environmental policy. The goal of this policy is to ensure the sound use of all Company buildings and property (in terms of heating, air conditioning, lighting, soil remediation, etc.), promote the use of products made from recycled materials (such as hand towels, bathroom tissue, envelopes, etc.) as well as the recuperation and recycling of the supplies it uses (various types of paper and cardboard, aluminium, printer cartridges, computer hardware, etc.).

Within a larger context, as Industrial Alliance is concerned about the physical and human environment in which it continues to evolve, the Company is preparing a report on sustainable development. This document will present an overview of the measures taken by the Company to improve the quality of life of both the local and national community in the long term by ensuring a sound, thriving and stimulating environment for future generations.

Consolidated Financial Statements

Summary Sommaire

Responsibility for Financial Statements

The consolidated financial statements of **Industrial Alliance Insurance and Financial Services Inc.**, which have been approved by the Board of Directors, were prepared by Management in accordance with Canadian generally accepted accounting principles and contain certain amounts based on best judgment and estimates as their final determination is dependant upon subsequent events. It is the opinion of Management that the accounting policies utilized are appropriate in the circumstances and are adequate to reflect the financial position and the results of operations within reasonable limits of materiality. The financial information presented elsewhere in this annual report is consistent with the information contained in the financial statements.

In order to carry out its responsibilities with regard to the financial statements, Management maintains internal control systems that aim to provide a reasonable degree of certainty that transactions are duly authorized, that the assets are well protected, and that adequate records are kept. These internal control systems are reinforced by the work of a team of internal auditors, who make a periodic review of all departments within the Company.

The Board of Directors' Audit Committee, comprised solely of board members who are neither managers nor employees of the Company, ensures that Management assumes its responsibility in terms of financial statements.

The functions of the Audit Committee are to:

- Review the financial statements and recommend them for approval by the Board of Directors;
- Review the systems of internal control and security;
- Recommend the appointment of the external auditors and their fee agreements to the Board of Directors;
- Review other accounting, financial, and security matters as required.

This committee meets regularly with Management and the internal and external auditors. The latter may, as they see fit, meet with the Audit Committee, with or without Management, to discuss matters affecting the audit and financial information.

The Appointed Actuary is appointed by the Board of Directors pursuant to *An Act respecting insurance* (Quebec), and is responsible for ensuring that assumptions and methods used in the valuation of policy liabilities are in accordance with the standards of practice of the Canadian Institute of Actuaries. The Appointed Actuary is required to express an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations of the Company. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion.

The external auditors are appointed to report to the shareholders regarding the fairness of presentation of the Company's consolidated financial statements. The auditors fulfil this responsibility by carrying out an independent examination of these statements in accordance with Canadian generally accepted auditing standards.

On behalf of Management,

Yvon Charest

Yvon Charest
President and Chief Executive Officer
Québec, February 10, 2004

Appointed Actuary's Report

To the shareholders of **Industrial Alliance Insurance and Financial Services Inc.**

I have valued the policy liabilities of **Industrial Alliance Insurance and Financial Services Inc.** for its consolidated balance sheets as at December 31, 2003 and 2002 and the variation in the policy liabilities in its consolidated statements of income for the years then ended. These valuations were carried out in accordance with accepted actuarial practice, using appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyowners obligations. The results are also fairly presented in the consolidated financial statements.

Michel Sanschagrin
Fellow of the Canadian Institute of Actuaries
Québec, February 4, 2004

Auditors' Report

To the shareholders of **Industrial Alliance Insurance and Financial Services Inc.**

We have audited the consolidated balance sheets of **Industrial Alliance Insurance and Financial Services Inc.** and the consolidated statements of net assets of its segregated funds as at December 31, 2003 and 2002 and the consolidated statements of income, participating policyholders' account, contributed surplus, shareholders' retained earnings, cash flows and changes in net assets of its segregated funds for the years 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 audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. 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 **Industrial Alliance Insurance and Financial Services Inc.** and of its segregated funds as at December 31, 2003 and 2002 and the results of its operations, its participating policyholders' account, its contributed surplus, its cash flows and the changes in net assets of its segregated funds for the years then ended in accordance with Canadian generally accepted accounting principles.

Samson Bélair / Deloitte & Touche s.e.n.c.r.l.
Chartered Accountants
Québec, February 4, 2004

Consolidated Income Statements

Years ended December 31 (in millions of dollars, unless otherwise indicated)

	2003	2002
	$	$ (restated) (note 3)
Revenues		
Premiums (note 25)	**2,566.7**	2,337.2
Net investment income (note 7)	**677.3**	450.2
Fees and other revenues	**107.7**	95.3
	3,351.7	2,882.7
Policy benefits and expenses		
Change in provisions for future policy benefits	**540.9**	263.6
Payments to policyholders and beneficiaries	**1,216.5**	1,117.4
Net transfer to segregated funds	**710.2**	737.9
Dividends, experience refunds and interest on amounts on deposit	**49.9**	30.3
Commissions	**324.9**	309.9
Premium and other taxes	**43.0**	39.3
General expenses (note 8)	**237.4**	229.9
Net financing expenses (note 17)	**17.2**	14.1
Non-controlling interest (note 18)	**4.2**	—
	3,144.2	2,742.4
Income before income taxes	**207.5**	140.3
Income taxes (notes 4 and 9)	**(67.2)**	(36.8)
Net income	**140.3**	103.5
Net income attributable to participating policyholders	**5.3**	6.1
Net income attributable to shareholders	**135.0**	97.4
Earnings per share (note 20)		
basic (in dollars)	**3.47**	2.57
diluted (in dollars)	**3.42**	2.57

Consolidated Balance Sheets

As at December 31 (in millions of dollars)

	2003	2002
	$	$ (restated) (note 3)
Assets		
Invested assets (note 11)		
Bonds	**5,527.9**	4,686.4
Mortgages	**2,490.4**	2,526.5
Stocks	**930.3**	720.1
Real estate	**425.7**	436.0
Policy loans	**154.9**	157.6
Cash and cash equivalents	**280.1**	305.1
Short-term investments	**24.7**	34.0
Other invested assets	**91.5**	69.2
	9,925.5	8,934.9
Goodwill (note 12)	**56.5**	51.9
Other assets (note 13)	**325.6**	302.4
	382.1	354.3
Total general fund assets	**10,307.6**	9,289.2
Segregated funds net assets	**5,042.2**	4,173.5
Liabilities		
Policy liabilities (note 14)		
Provisions for future policy benefits	**7,668.3**	6,990.6
Provisions for dividends to policyowners and experience rating refunds	**44.4**	29.4
Benefits payable and provision for unreported claims	**136.1**	124.7
Policyholders' amounts on deposit	**145.6**	154.9
	7,994.4	7,299.6
Other liabilities (note 15)	**579.3**	493.0
Deferred net realized gains (note 16)	**347.2**	314.1
Subordinated debentures (note 17)	**135.0**	185.0
Non-controlling interest (note 18)	**150.0**	—
Participating policyholders' account	**64.8**	59.5
Equity		
Shareholders' equity		
Share capital (note 19)	**457.0**	457.0
Contributed surplus	**6.5**	3.3
Retained earnings	**575.9**	470.2
Currency translation account	**(2.5)**	7.5
	1,036.9	938.0
Total general fund liabilities and equity	**10,307.6**	9,289.2
Segregated funds liabilities	**5,042.2**	4,173.5

On behalf of the Board,

Yvon Charest, Director

Michel Gervais, Director

Consolidated Participating Policyholders' Account

Years ended December 31 (in millions of dollars)

	2003	2002
	$	$
Participating policyholders' account at beginning of year	**59.5**	53.4
Income for the year	**10.5**	10.6
Dividends	**(4.6)**	(3.8)
Transfer to the shareholders' account	**(0.6)**	(0.7)
Net income attributable to participating policyholders	**5.3**	6.1
Participating policyholders' account at end of year	**64.8**	59.5

Consolidated Contributed Surplus

Years ended December 31 (in millions of dollars)

	2003	2002
	$	$ (restated) (note 3)
Contributed surplus at beginning of year	**—**	—
Restatement due to the change in accounting policy for the stock option plan	**3.3**	—
Contributed surplus restated	**3.3**	—
Current year contribution for the stock option plan	**3.2**	3.3
Contributed surplus at end of year	**6.5**	3.3

Consolidated Shareholders' Retained Earnings

Years ended December 31 (in millions of dollars)

	2003	2002
	$	$ (restated) (note 3)
Retained earnings at beginning of year	**473.5**	397.6
Restatement due to the change in accounting policy for the stock option plan	**3.3**	—
Retained earnings restated	**470.2**	397.6
Net income attributable to shareholders	**135.0**	97.4
Issue costs of IATS, net of taxes (note 18)	**(1.8)**	—
Dividends	**(27.5)**	(24.8)
Retained earnings at end of year	**575.9**	470.2

Consolidated Cash Flow Statements

Years ended December 31 (in millions of dollars)

	2003	2002
	$	$ (restated) (note 3)
Cash flows from operating activities		
Net income	**140.3**	103.5
Items not affecting cash and cash equivalents:		
Change in provision for future policy benefits	**748.9**	263.6
Share of net results of significantly influenced entity	**(1.4)**	(0.8)
Amortization of realized and unrealized gains (losses)	**(76.8)**	17.9
Amortization of premiums and discounts	**(133.0)**	(124.7)
Future income taxes	**33.4**	2.3
Stock option plan	**3.2**	3.3
Other	**17.5**	55.6
	732.1	320.7
Other changes in other assets and liabilities	**13.6**	45.0
Cash flows from operating activities	**745.7**	365.7
Cash flows from investing activities		
Sales, maturities and repayments of:		
Bonds	**1,515.2**	920.4
Mortgages	**533.7**	516.0
Stocks	**388.0**	420.7
Real estate	**11.2**	7.7
Policy loans	**67.4**	39.2
Other invested assets	**144.2**	239.6
	2,659.7	2,143.6
Purchases of:		
Bonds	**(2,206.5)**	(1,274.4)
Mortgages	**(531.4)**	(378.1)
Stocks	**(546.1)**	(512.3)
Real estate	**(0.9)**	(28.2)
Policy loans	**(67.9)**	(46.4)
Other invested assets	**(147.5)**	(175.3)
Acquisition of cash and short-term investments	**0.4**	(0.2)
	(3,499.9)	(2,414.9)
Cash flows from investing activities	**(840.2)**	(271.3)
Cash flows from financing activities		
Issue of common shares	**18.7**	—
Redemption of preferred shares – Series 1	**(18.7)**	—
Redemption of debenture	**(50.0)**	—
Issue of non-controlling interest	**150.0**	—
Issuance cost of non-controlling interest	**(1.8)**	—
Dividends paid on preferred shares	**(0.3)**	(0.7)
Dividends paid on common shares	**(27.2)**	(24.1)
Decrease in mortgage debt	**(1.2)**	(7.0)
Cash flows from financing activities	**69.5**	(31.8)
Increase (decrease) in cash and cash equivalents	**(25.0)**	62.6
Cash and cash equivalents at beginning	**305.1**	242.5
Cash and cash equivalents at end	**280.1**	305.1
Supplementary information		
Interest paid	**25.1**	17.3
Income taxes paid	**39.2**	17.0

Consolidated Financial Statements of Segregated Funds

Years ended December 31 (in millions of dollars)

Consolidated Statements of Changes in Net Assets

	2003	2002
	$	$
Net assets at beginning of year	**4,173.5**	4,049.6
Additions:		
Amounts received from policyholders	**982.9**	960.3
Investment income	**139.0**	126.7
Net realized loss	**(28.6)**	(45.1)
Net increase (decrease) in market value	**534.3**	(295.8)
	5,801.1	4,795.7
Deductions:		
Amounts withdrawn by policyholders	**667.2**	534.9
Operating expenses	**91.7**	87.3
	758.9	622.2
Net assets at end of year	**5,042.2**	4,173.5

As at December 31 (in millions of dollars)

Consolidated Statements of Net Assets

	2003	2002
	$	$
Assets		
Bonds	**1,421.5**	1,085.0
Mortgages and securities	**49.8**	46.9
Stocks	**1,500.8**	1,388.7
Units	**1,725.5**	1,361.3
Cash and short-term investments	**331.8**	283.7
Other assets	**23.3**	18.8
	5,052.7	4,184.4
Liabilities		
Accounts payable	**10.5**	10.9
Net assets	**5,042.2**	4,173.5

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002 (in millions of dollars, unless otherwise indicated)

1 Status and Nature of Activities

Industrial Alliance Insurance and Financial Services Inc., formerly known as Industrial-Alliance Life Insurance Company, a company incorporated under *An Act respecting insurance* (Quebec), constitutes, with its subsidiaries, a group of companies (the "Group") engaged mainly in the development, marketing and distribution of insurance and annuity products. The Company also operates mutual fund, securities and trust businesses. The operations of the life and health insurance business extend throughout Canada and certain regions in the western United States, while the general insurance operations are concentrated mainly in Quebec.

Following the shareholders approval on May 7, 2003, the Company obtained a certificate of continuance on June 16, 2003. The Company is now incorporated under *An Act respecting insurance* and *Part 1A* of the *Companies Act* (Quebec).

2 Accounting Policies

The financial statements are prepared in accordance with Canadian generally accepted accounting principles and maintain principles particular to each of the entities included in the consolidation, namely:

- Life insurance companies;
- General insurance companies;
- Mutual fund, securities and trust businesses.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amounts of revenues, policy benefits, and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates are related to the determination of actuarial liabilities.

The significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

Consolidation Principles

Ownership interest, other than portfolio investments in common and preferred stocks, are recorded using the following methods:

- The accounts of the subsidiaries are consolidated;
- The investment in a significantly influenced entity, MD Life, for 45% of the share capital, is presented at the equity value.

All material intercompany balances and transactions have been eliminated.

Matching of Assets to Liabilities

To manage the risks of interest rate fluctuations and fund availability, the Company maintains a system to match its assets to its policy liabilities and long-term debt, hedges its liabilities until they expire and uses derivative products as complementary management tools. Consequently, assets are chosen on the basis of amount, cash flow and return in order to correspond to the characteristics of the hedged liabilities. The accounting policies for derivative financial instruments used for hedging correspond to those used for the underlying hedged position. Therefore, any change in market value of the asset held for hedging purposes will have little impact on the financial position of the Company and on its ability to honour its obligations. In the evaluation of its policy liabilities, as described in note 14, the Company takes into account the level of matching achieved between assets and liabilities.

Years ended December 31, 2003 and 2002 (in millions of dollars, unless otherwise indicated)

2 ACCOUNTING POLICIES (continued)

Credit Risk

The Company maintains provisions for credit losses, including losses of principal and interest on bonds, mortgages, and real estate acquired by foreclosure. Provisions for credit losses consist of specific provisions for loans and debt considered to be impaired and a general provision for other future potential credit losses.

The carrying value of loans and debt securities considered by the Company to be impaired is reduced by specific provisions to the value estimated to be realizable in the normal course of operations. A loan is considered to be impaired if, as a result of a deterioration in credit quality, there is no longer reasonable assurance of timely collection of the full amount of principal and interest. Any loan on which contractual payments are in arrears for 90 days or more is assumed to be impaired. In addition, the Company considers other factors in determining if a loan is impaired including the overall credit quality of the borrower and the fair value of the property provided as security.

A general provision, included as a component of policy liabilities, is made for other potential future losses on loans and debt securities.

When an asset is impaired, interest is no longer accrued and recognized into income, and previous interest accruals are reversed.

Bonds

Bonds are recorded at cost, adjusted for amortization of premiums and discounts and a provision for credit losses. Realized gains and losses on the sale of such securities are deferred and amortized to net investment income over the remaining term to maturity, up to a maximum of 20 years. Permanent declines in value are taken into account when recognized and are charged to the income statement of that year. When a specific portfolio is disinvested concurrent with the underlying liabilities, the gains or losses are recognized immediately in the income statement of the year.

Mortgages

Mortgages are carried at amortized cost, net of a provision for credit losses. Restructured mortgage loans are adjusted for unamortized discounts representing interest concessions.

Realized gains and losses on the sale of mortgages are deferred and amortized to net investment income over the remaining mortgage term, up to a maximum of twenty years. Commissions paid at
the issuance of new loans are deferred and amortized to net investment income over the life of the related loans, to a maximum of twenty years. When a specific portfolio is disinvested concurrent with the underlying liabilities, the gains or losses are recognized immediately in the income statement of the year.

Stocks

Stocks held in portfolios include common stock, preferred stock and market indices. These are carried at moving average market value whereby the carrying value is adjusted towards market value at 5% per quarter. Realized gains and losses on the disposal of shares are deferred and amortized to net investment income at 5% per quarter on a declining balance basis.

Stocks that are specifically matched to Universal Life policies are carried at market value and any variation in market value is recognized immediately in the income statement.

Seed money invested in segregated funds is also accounted at the market value and any variation in market value is recognized immediately in the income statement.

When a specific portfolio is disinvested concurrent with the underlying liabilities, the gains or losses are recognized immediately in the income statement of the year.

Real Estate

Real estate held for investment, which includes own-use property, is carried at the moving average market value whereby the carrying value is adjusted towards market value at 3% per quarter. Each real estate property is appraised every three years under a scheduled program of market appraisals.

Realized gains and losses on the disposal of real estate held for investment are deferred and amortized to net investment income at 3% per quarter on a declining balance basis.

Real estate held for resale is measured at fair value less cost of sale. Gains and losses on real estate held for resale are taken into income when realized.

When a specific portfolio is disinvested concurrent with the underlying liabilities, the gains or losses are recognized immediately in the income statement of the year.

Years ended December 31, 2003 and 2002 (in millions of dollars, unless otherwise indicated)

2 ACCOUNTING POLICIES (continued)

Policy Loans

Policy loans are recorded at the amount of the outstanding balance and are fully secured by the cash surrender value of the policies, on which the respective loans are made.

Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents are highly liquid investments with an original term to maturity of three months or less that are held for the purpose of meeting short-term cash commitments. Short-term investments are highly liquid investments with a term to maturity of less than one year.

Derivative Financial Instruments

The Company uses derivative financial instruments, including contracts for foreign currency, interest rate and market indices when appropriate, to manage exposure to the foreign currency, interest rate and stock market risks associated with certain assets and liabilities. The Company also uses derivative financial instruments for non-hedging purposes.

The Company believes that derivative financial instruments are efficient hedges, when appropriately structured at the time the hedge is implemented and so maintained for the duration of the instrument.

The Company uses interest swaps and market index contracts as part of its program to match its assets to its actuarial liabilities. Swap contracts give rise to periodic exchanges of interest payments with no exchange on the notional amount on which the payments are based. The realized and unrealized gains and losses on these derivative financial instruments used for hedging purposes are accounted for in the same way as the underlying liabilities.

The Company uses currency swap contracts as part of its management of the foreign exchange risk exposure with respect to certain investments or commitments denominated in foreign currency. The Company designates swap contracts as hedges and the currency gains and losses resulting from these swaps are offset by corresponding currency gains and losses on the covered items.

The gains or losses related to market index swaps used for non-hedging purposes are deferred and amortized to the income statement using the declining balance method at the quarterly rate of 5%. The gains or losses related to interest rate swaps are recorded directly in the income statement.

The receivables and payables on derivative financial instruments are included with other assets and other liabilities respectively, and the unamortized realized gains and losses are included in the deferred net realized gains on the balance sheet.

Other Invested Assets

Other invested assets include the investment securities fund and the investment in the significantly influenced entity. The investment securities fund consists of investment securities matched with the subordinated debenture of $60.0, accrued revenues and receivables arising from decline in value of those securities. Investment securities are recorded at market value. Any increase or decrease in value and gains and losses realized on the sale of such securities are applied directly to the income statement for the year in which they occur.

Capital Assets

Capital assets, consisting mainly of systems hardware and software, leasehold improvements to real estate held for investment purposes and office furniture and equipment, are recorded at cost less accumulated depreciation and amortization. They are principally depreciated under the straight-line method over their estimated useful lives (ranging from three to eight years) or the original term of their related lease agreements (ranging from one to fifteen years).

Goodwill

Goodwill arises on acquisitions and represents the excess cost of subsidiaries stock over the fair value of net assets acquired. The fair value of goodwill assigned to each reporting unit is valued annually and tested for impairment. Goodwill is written down to its fair value when there has been a permanent decline in value based on forecast investment returns.

Segregated Funds

Funds from group or individual annuities issued by the Company may be invested in segregated portfolios at the option of the policyholders. Although the underlying assets are registered in the name of the Company and the segregated fund policyholder has no direct access to the specific assets, the policyholder bears the risks and rewards of the fund's investment performance. Individual contracts also have guarantees from the Company. Segregated fund assets may not be applied against the liabilities that arise from any other business of the Company. The assets, managed by the Company, but not included in the general fund, are carried at market value. The Company derives fee income from the management of its segregated funds.

Years ended December 31, 2003 and 2002 (in millions of dollars, unless otherwise indicated)

2 ACCOUNTING POLICIES (continued)

Provisions for Future Policy Benefits

Provisions for future policy benefits represent the amount which, together with future premiums and investment income, provide for all commitments under policy contracts. These provisions are established using the Canadian Asset Liability Method (CALM), which is generally accepted actuarial practice according to the standards established by the Canadian Institute of Actuaries (CIA).

These provisions are calculated based on assumptions that are regularly tested and, if need be, modified to reflect changes in plan experience.

Litigation Related to Policyholder Contracts

In connection with its operations, the Company is, from time to time, named as defendant in actions for damages and costs allegedly sustained by plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, the Company does not believe that it will incur any material loss or expense in connection with such actions and the latter are taken into account at the conclusion of the concerned cases.

Income Taxes

The Company uses the future income taxes method according to which the income taxes payable are based on taxable income and the future income taxes are based on taxable temporary difference between the carrying value of the assets and liabilities and their values for tax purposes. The tax rate used to evaluate the future income tax assets or liabilities corresponds to the rate enacted at the balance sheet dates.

In addition to income taxes, charges to the income statement include the tax on capital imposed on financial institutions and the large corporations tax.

Foreign Currencies

The Group's operations in the United States and the Caribbean are considered to be self-sustaining. Assets and liabilities denominated in foreign currency are translated into Canadian dollars at the period-end exchange rate while revenues and expenses are translated at the rate of exchange in effect on the dates when they occur. Gains and losses resulting from the translation of balance sheet items related to activities maintained outside Canada are recorded in the Currency Translation Account, a component of equity, whereas those related to operations are directly included in the income statement.

Premiums

Insurance and annuity premiums are recognized as revenue when due under contracts in force. Premiums are reported net of the share ceded to reinsurers for insuring a part of the risk. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue.

Investment Income

Investment income is recorded on an accrual basis and is shown net of related expenses.

Fees and Other Revenues

Fees and other revenues primarily represent fees earned from the management of the Company's segregated fund assets and administrative services only (ASO) income.

Net Transfer to Segregated Funds

Net transfer to segregated funds represents the total amount transferred from the general fund to segregated funds less the total amount transferred from the segregated funds to the general fund.

Employee Future Benefits

The cost of the employee future benefits is determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. The discount rate used to determine the accrued benefit obligation refers to market interest rates at the measurement date on high quality debt instruments with cash flows that match the expected benefit payments. The excess of net actuarial gain or loss over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the remaining service life of active employees.

Stock Option Plan

The cost of stock options granted is recorded, using the fair value method, as a remuneration expense and included in general expenses and the corresponding amount is recorded in the Company's contributed surplus.

Share Purchase Plan for Employees

The Company contribution is charged to the income statement as a general expense.

Years ended December 31, 2003 and 2002 (in millions of dollars, unless otherwise indicated)

2 ACCOUNTING POLICIES (continued)

Deferred Share Units (DSU)

The deferred share units (DSU) settled in cash correspond to the difference between the market value and the exercise price. This value is posted as a liability and the total expenses for the plan are included in general expenses.

Government Assistance

The Company has qualified for the major investment project of the Quebec government for which government assistance could be available until 2010. This assistance is recognized when the Company has received formal annual certification from the Quebec Government of its eligibility to receive the assistance and is recorded as a reduction of general expenses.

Earnings Per Share

The treasury stock method is used for determining the dilutive effect of stock options. The matching of the numerators and denominators used in computing basic and diluted earnings per share are presented in accordance with the standard.

3 CHANGE IN ACCOUNTING POLICY

Stock-Based Compensation

Starting January 1, 2003, the Company decided to expense the cost of stock options for options granted since January 1, 2002, adopting the fair value method. According to this method, the cost of stock options is recorded as a remuneration expense in the general expenses of the consolidated results and the corresponding amount is recorded in the Company's contributed surplus.

This change to the accounting policy has been applied retroactively and 2002 figures have been restated accordingly. It has no impact on years prior to 2002. The impact of this change on the consolidated results translates into a $3.2 increase in general expenses for the year ended December 31, 2003 ($3.3 for the year ended December 31, 2002). The impact of this change on the consolidated balance sheets is a decrease of retained earnings and an increase in the contributed surplus of $6.5 as at December 31, 2003 ($3.3 as at December 31, 2002).

4 CHANGE IN THE INCOME TAX RATE

In 2003, the Ontario government repealed previously announced tax rate reductions for future years and announced a tax rate increase for the year 2004. The impact of this on the financial statements is a $3.9 decrease in the provision for future policy benefits and a $7.1 increase in the future income tax liability, resulting in a net reduction in the income of $3.2.

5 TELEGLOBE PROVISION

Following the announcement by BCE Inc. in April 2002 that it would cease further long-term financing to Teleglobe Inc., the Company decided to set up a provision for the full amount of its investments in Teleglobe securities effective at the end of March 2002. The net income in the consolidated financial statements has been reduced by a charge of $19.4 in 2002. This reflects a gross provision of $27.9 offset by $8.5 in related income taxes in 2002.

6 ACQUISITION OF BUSINESS

On October 16, 2003, the Company completed the acquisition of 100% of the common shares of Global Allocation Financial Group Inc. (Global), a mutual funds dealer. The Company acquired all the common shares issued for an amount of $0.3 in cash and $0.2 payable over 3 years. Also, an amount up to a maximum of $0.3 will be paid over the next three years subject to certain targets being met. This acquisition added approximately $300.0 to assets under administration.

On November 18, 2003, the Company completed the acquisition of 100% of the common shares of Co-operators Mutual Funds Limited (CMFL) and changed its name to Industrial Alliance Mutual Funds Inc. The Company acquired all the common shares issued for an amount of $3.0 and an amount to be determined in one year based on a percentage of the net assets under management. Using the value of the net assets under management as at December 31, 2003, the estimated amount to be paid under that condition will be $1.4. This acquisition added approximately $90.0 to assets under management.

On March 19, 2002, the Company purchased the shares of ISL-Lafferty Securities Inc. (ISL), a fully licensed securities broker, for a consideration of $0.6 in cash and changed its name to Industrial Alliance Securities Inc. On April 3, 2002, Industrial Alliance Securities purchased the business of BNP (Canada) Securities Inc. (BNP), and, on August 31, 2002, it acquired certain assets of Leduc & Associates Securities (Canada) Ltd. (Leduc), for $1.7 in cash.

Years ended December 31, 2003 and 2002 (in millions of dollars, unless otherwise indicated)

6 ACQUISITION OF BUSINESS (continued)

The assets acquired and liabilities assumed are summarized as follows:

	2003		2002	
	Global **$**	CMFL **$**	ISL $	BNP/Leduc $
Assets acquired				
Cash	**0.3**	**0.4**	—	—
Other invested assets	**—**	**6.5**	—	—
Other assets	**0.1**	**2.3**	2.9	—
	0.4	**9.2**	2.9	—
Liabilities assumed				
Other liabilities	**0.4**	**8.8**	2.4	—
Net assets acquired	**—**	**0.4**	0.5	—
Goodwill	**0.5**	**4.0**	0.1	1.7
Purchase price	**0.5**	**4.4**	0.6	1.7

7 NET INVESTMENT INCOME

Net investment income was derived from the following sources:

	2003			
	Investment income **$**	Realized and unrealized gains (losses) **$**	Change in provision for losses **$**	Total **$**
Bonds	**350.1**	**39.5**	**—**	**389.6**
Mortgages	**165.2**	**2.6**	**—**	**167.8**
Stocks	**22.1**	**59.7**	**—**	**81.8**
Real estate (net of $41.4 operating expenses)	**28.0**	**1.1**	**(0.1)**	**29.0**
Short-term investments	**11.6**	**—**	**—**	**11.6**
Significantly influenced entity	**1.4**	**—**	**—**	**1.4**
Other	**10.1**	**—**	**—**	**10.1**
	588.5	**102.9**	**(0.1)**	**691.3**
Investment expenses	**(14.0)**	**—**	**—**	**(14.0)**
Total	**574.5**	**102.9**	**(0.1)**	**677.3**

	2002			
	Investment income $	Realized and unrealized gains (losses) $	Change in provision for losses $	Total $
Bonds	323.3	32.3	(29.1)	326.5
Mortgages	182.8	2.2	0.2	185.2
Stocks	15.6	(114.6)	—	(99.0)
Real estate (net of $44.3 operating expenses)	27.7	1.8	—	29.5
Short-term investments	8.2	—	—	8.2
Significantly influenced entity	0.7	—	—	0.7
Other	13.3	—	—	13.3
	571.6	(78.3)	(28.9)	464.4
Investment expenses	(14.2)	—	—	(14.2)
Total	557.4	(78.3)	(28.9)	450.2

Years ended December 31, 2003 and 2002 (in millions of dollars, unless otherwise indicated)

8 GOVERNMENT ASSISTANCE

The Company accounted government assistance for $11.3 ($7.8 after-tax) during the year. These amounts were accounted for based upon receipt of the first formal confirmation in 2003 from the Quebec government for the current and prior years. The Company accounted for $6.6 ($4.5 after-tax) related to the year 2000, 2001 and 2002, and $4.7 ($3.3 after-tax) related to the current year. The program calls for annual eligibility certification by the Quebec Government on a prospective basis. The Company has also received eligibility certification for the year 2004.

9 INCOME TAXES

Income taxes reflect an effective tax rate lower than the combined federal and provincial tax rate due to the following items:

	2003	2002
	$	$
Income before income taxes	**207.5**	140.3
Provision for income tax at Canadian statutory rates	**67.8**	53.0
Non-taxable income	**(7.2)**	(9.5)
Change in tax rate	**4.4**	(6.8)
Large corporations and financial institutions taxes	**2.2**	0.1
	67.2	36.8

Total taxes charged to the income statement are divided as follows:

	2003	2002
	$	$
Current income taxes	**33.8**	34.5
Future income taxes	**33.4**	2.3
	67.2	36.8

The future tax liability, included in other liabilities on the balance sheet, is related to the temporary differences on the following principal items:

	2003	2002
	$	$
Policy liabilities	**172.6**	147.1
Real estate	**41.7**	39.1
Other	**(36.4)**	(43.1)
	177.9	143.1

10 RETAINED EARNINGS

To conform to Quebec statutory requirements with respect to provisions for future policy benefits, an amount of $219.8 of the retained earnings is appropriated ($188.6 as at December 31, 2002).

Years ended December 31, 2003 and 2002 (in millions of dollars, unless otherwise indicated)

11 INVESTED ASSETS

a) Carrying Value, Fair Value, Credit Risk and Concentration Risk

Credit risk is the risk of financial loss resulting from the failure of borrowers to make payments of principal or interest when they fall due. Concentration risk arises when multiple credits are granted to borrowers with similar characteristics, or large credits are granted to one borrower.

The Company manages credit and concentration risks by:

- Establishing investment policies that are approved by the Board of Directors, and reviewed and updated on a regular basis;
- Requiring prudent diversification of credit portfolios;
- Establishing limits to credit exposures according to the characteristics of counterparties;
- Requiring the use of established underwriting and credit granting procedures;
- Monitoring compliance with established investment policies on a regular basis;
- Regularly updating its assessment of risk after the credit was originally granted;
- Requiring independent reviews and audits of its credit risk management program;
- Reporting the results of the monitoring program, reviews and audits to the Board of Directors.

The following tables provide information about the Company's exposure to credit and concentration risk.

			2003		
	Carrying value of unimpaired investments $	Carrying value of impaired investments $	Total carrying value of investments $	Unrealized gains (losses) $	Fair value $
Bonds					
Governments	**3,269.2**	**—**	**3,269.2**	**663.3**	**3,932.5**
Municipalities	**98.9**	**—**	**98.9**	**14.0**	**112.9**
Corporate and other	**2,158.6**	**1.2**	**2,159.8**	**163.5**	**2,323.3**
	5,526.7	**1.2**	**5,527.9**	**840.8**	**6,368.7**
Mortgages					
Insured	**1,203.0**	**9.0**	**1,212.0**	**33.9**	**1,245.9**
Conventional	**1,267.3**	**11.1**	**1,278.4**	**45.8**	**1,324.2**
	2,470.3	**20.1**	**2,490.4**	**79.7**	**2,570.1**
Stocks	**930.3**	**—**	**930.3**	**27.0**	**957.3**
Real estate					
Held for investment	**418.2**	**—**	**418.2**	**20.1**	**438.3**
Held for resale	**—**	**7.5**	**7.5**	**0.6**	**8.1**
	418.2	**7.5**	**425.7**	**20.7**	**446.4**
Policy loans	**154.9**	**—**	**154.9**	**—**	**154.9**
Cash and cash equivalents	**280.1**	**—**	**280.1**	**—**	**280.1**
Short-term investments	**24.7**	**—**	**24.7**	**—**	**24.7**
Other invested assets	**91.5**	**—**	**91.5**	**—**	**91.5**
Total	**9,896.7**	**28.8**	**9,925.5**	**968.2**	**10,893.7**

Years ended December 31, 2003 and 2002 (in millions of dollars, unless otherwise indicated)

11 INVESTED ASSETS (continued)

	2002				
	Carrying value of unimpaired investments $	Carrying value of impaired investments $	Total carrying value of investments $	Unrealized gains (losses) $	Fair value $
Bonds					
Governments	2,584.7	—	2,584.7	788.7	3,373.4
Municipalities	118.0	—	118.0	11.7	129.7
Corporate and other	1,982.3	1.4	1,983.7	(63.7)	1,920.0
	4,685.0	1.4	4,686.4	736.7	5,423.1
Mortgages					
Insured	1,134.9	9.1	1,144.0	34.0	1,178.0
Conventional	1,373.6	8.9	1,382.5	55.0	1,437.5
	2,508.5	18.0	2,526.5	89.0	2,615.5
Stocks	720.1	—	720.1	(28.4)	691.7
Real estate					
Held for equivalents	427.0	—	427.0	18.8	445.8
Held for resale	—	9.0	9.0	0.8	9.8
	427.0	9.0	436.0	19.6	455.6
Policy loans	157.6	—	157.6	—	157.6
Cash and cash equivalents	305.1	—	305.1	—	305.1
Short-term investments	34.0	—	34.0	—	34.0
Other invested assets	69.2	—	69.2	—	69.2
Total	8,906.5	28.4	8,934.9	816.9	9,751.8

Other invested assets

	2003	2002
	$	$
Investment securities (at market value)	**75.1**	61.1
Receivable and accrued revenue	**0.5**	0.6
Significant influenced entity	**8.9**	7.5
Notes receivable	**7.0**	—
Total	**91.5**	69.2

For stocks and bonds, fair values are determined with reference to quoted market prices, when available, otherwise, an appraisal is done using similar securities. For mortgages, the fair value reflects changes in interest rates which have occurred since the mortgages were originated. The value for real estate is determined by a combination of internal and external appraisals using expected net cash flows discounted at the market interest rate. For policy loans, cash and cash equivalents, short-term investments and other remaining invested assets, the fair values are approximately the same as the carrying value due to their short-term nature.

Years ended December 31, 2003 and 2002 (in millions of dollars, unless otherwise indicated)

11 Invested Assets (continued)

b) Interest Rate Risk

Interest rate risk arises when fluctuations in market interest rates change the cash flows of the Company's investments, and do not equally affect the cash flows of the Company's liabilities.

The following tables provide information about the maturity dates and fair value of the Company's invested assets that are subject to interest rate risk.

	2003			
	Bonds		Mortgages	
	Carrying value **$**	Fair value **$**	Carrying value **$**	Fair value **$**
Due in 1 year or less	**394.6**	**401.7**	**405.2**	**408.7**
Due after 1 year through 5 years	**1,074.5**	**1,142.9**	**1,473.9**	**1,510.8**
Due after 5 years through 10 years	**1,103.8**	**1,236.8**	**352.5**	**372.8**
Due after 10 years	**2,955.0**	**3,587.3**	**258.8**	**277.8**
Total	**5,527.9**	**6,368.7**	**2,490.4**	**2,570.1**

	2002			
	Bonds		Mortgages	
	Carrying value $	Fair value $	Carrying value $	Fair value $
Due in 1 year or less	373.1	378.6	496.3	501.7
Due after 1 year through 5 years	1,047.9	1,128.0	1,467.1	1,514.2
Due after 5 years through 10 years	679.9	796.7	328.6	347.1
Due after 10 years	2,585.5	3,119.8	234.5	252.5
Total	4,686.4	5,423.1	2,526.5	2,615.5

Bonds by investment grade

	2003	2002
	Carrying value	
	$	$
AAA	**624.8**	571.6
AA	**866.3**	702.2
A	**3,683.8**	3,048.0
BBB	**345.6**	359.4
BB and lower	**7.4**	5.2
Total	**5,527.9**	4,686.4

Years ended December 31, 2003 and 2002 (in millions of dollars, unless otherwise indicated)

11 INVESTED ASSETS (continued)

Mortgages by region and type

	2003					
	Atlantic **$**	Quebec **$**	Ontario **$**	West **$**	Out of Canada **$**	Total **$**
Residential	**1.0**	**367.8**	**46.3**	**10.1**	**—**	**425.2**
Multi-residential	**19.8**	**650.2**	**198.6**	**362.7**	**152.5**	**1,383.8**
Non-residential	**32.2**	**290.0**	**113.2**	**235.4**	**10.6**	**681.4**
Total	**53.0**	**1,308.0**	**358.1**	**608.2**	**163.1**	**2,490.4**

	2002					
	Atlantic $	Quebec $	Ontario $	West $	Out of Canada $	Total $
Residential	1.3	392.5	58.4	13.3	—	465.5
Multi-residential	19.6	626.1	210.4	290.7	179.3	1,326.1
Non-residential	33.8	274.0	136.9	266.4	23.8	734.9
Total	54.7	1,292.6	405.7	570.4	203.1	2,526.5

Real estate by type of property

	2003	2002
	Carrying value	
	$	$
Residential and multi-residential	**8.2**	8.5
Office	**306.8**	307.1
Retail	**89.4**	93.3
Industrial	**10.2**	12.3
Land and other	**11.1**	14.8
Total	**425.7**	436.0

Years ended December 31, 2003 and 2002 (in millions of dollars, unless otherwise indicated)

11 Invested Assets (continued)

c) Provisions for Credit Losses

	2003	2002
	$	$
Bonds	**30.5**	30.5
Insured mortgage loans	**0.1**	0.1
Conventional mortgage loans	**4.4**	2.2
Real estate acquired to settle loans	**3.8**	4.0
Other	**1.9**	4.3
Total	**40.7**	41.1
Continuity of provisions		
Provisions for losses at beginning of year	**41.1**	15.7
Net increase in provisions for losses	**0.1**	28.9
Write-offs, net of recoveries	**(0.5)**	(3.5)
Provisions for losses at end of year	**40.7**	41.1

12 Goodwill

Carrying value of goodwill and changes in the carrying value are as follows:

	2003	2002
	$	$
Balance at beginning of year	**51.9**	49.4
Acquisition of business	**4.5**	1.7
Letters patent and licence acquisitions	**—**	0.1
Adjustment on previous years' transactions	**0.1**	0.7
Balance at end of year	**56.5**	51.9

13 Other assets

	2003	2002
	$	$
Systems hardware and software, furniture and equipment, at cost	**79.1**	78.0
Less: accumulated depreciation	**49.0**	47.1
	30.1	30.9
Leasehold improvements at cost	**41.2**	49.5
Less: accumulated depreciation	**22.7**	30.7
	18.5	18.8
Accounts receivable	**107.0**	108.2
Investment income due and accrued	**64.9**	61.3
Outstanding premiums	**59.4**	52.9
Deferred expenses	**22.3**	22.0
Miscellaneous	**23.4**	8.3
	277.0	252.7
Total	**325.6**	302.4

The depreciation and amortization of fixed assets charged to income amounted to $14.1 ($10.2 in 2002).

The fair value of the other financial assets is approximately the same as the carrying value due to their short-term nature.

Years ended December 31, 2003 and 2002 (in millions of dollars, unless otherwise indicated)

14 POLICY LIABILITIES

Policy liabilities represent the amount of assets which, together with estimated future premiums and investment income, will be sufficient to pay estimated benefits, policyholder dividends and expenses on policies. Policy liabilities are determined using generally accepted actuarial practices according to standards established by the Canadian Institute of Actuaries. Policy liabilities include provisions for future policy benefits, deposit liabilities and incurred but unpaid claims.

The composition of the Company's policy liabilities and the corresponding assets are as follows:

	2003				
	Individual		Group		
	Life & Health	Annuities	Life & Health	Annuities	Total
	$	**$**	**$**	**$**	**$**
Policy liabilities					
Canada	**3,194.9**	**1,553.9**	**806.0**	**2,068.1**	**7,622.9**
United States	**101.9**	**222.9**	**0.1**	**0.3**	**325.2**
Other countries	**45.6**	**0.7**	**—**	**—**	**46.3**
Total	**3,342.4**	**1,777.5**	**806.1**	**2,068.4**	**7,994.4**
Assets backing policy liabilities					
Bonds and other fixed interest securities	**2,329.3**	**604.2**	**408.7**	**1,298.9**	**4,641.1**
Mortgages	**246.7**	**1,066.2**	**363.1**	**580.3**	**2,256.3**
Stocks	**579.1**	**19.3**	**8.3**	**31.0**	**637.7**
Real estate	**63.7**	**16.6**	**—**	**137.9**	**218.2**
Policy loans	**97.1**	**57.0**	**0.1**	**—**	**154.2**
Other assets	**26.5**	**14.2**	**25.9**	**20.3**	**86.9**
Total	**3,342.4**	**1,777.5**	**806.1**	**2,068.4**	**7,994.4**

	2002				
	Individual		Group		
	Life & Health	Annuities	Life & Health	Annuities	Total
	$	$	$	$	$
Policy liabilities					
Canada	2,856.4	1,483.6	739.4	1,806.9	6,886.3
United States	118.8	243.5	0.2	0.3	362.8
Other countries	49.8	0.7	—	—	50.5
Total	3,025.0	1,727.8	739.6	1,807.2	7,299.6
Assets backing policy liabilities					
Bonds and other fixed interest securities	2,173.8	515.5	342.3	1,037.9	4,069.5
Mortgages	270.1	1,098.1	363.9	577.9	2,310.0
Stocks	342.1	26.9	10.9	33.8	413.7
Real estate	64.0	16.6	—	138.8	219.4
Policy loans	99.9	55.8	—	—	155.7
Other assets	75.1	14.9	22.5	18.8	131.3
Total	3,025.0	1,727.8	739.6	1,807.2	7,299.6

The fair value of assets backing policy liabilities as at December 31, 2003 was estimated at $8.9 billion ($8.3 billion in 2002). This value should not be compared to the amount of policy liabilities since policy liabilities are not valued at market. Changes in the fair value of assets backing policy liabilities are essentially offset by changes in the fair value of policy liabilities and thus have a limited impact on the Company's equity.

Years ended December 31, 2003 and 2002 (in millions of dollars, unless otherwise indicated)

14 POLICY LIABILITIES (continued)

Assumptions

To compute the policy liabilities, assumptions based on the Appointed Actuary's best estimate of future experience have been made for many variables. These variables include mortality, morbidity, investment returns, lapse rates, operating expense levels, inflation, policyholder dividends and taxes. These assumptions cover the term of the liabilities being valued.

The following methods were used to establish the most significant assumptions:

Mortality

For individual life insurance, the Company conducts mortality experience studies annually. The expected mortality assumption is based on the results of these studies over the last few years. Overall, the Company's mortality experience has exhibited a gradually declining trend. However, no future mortality improvements are assumed in the calculation of policy liabilities for this block of business.

With respect to individual and group annuities, the assumption used is based on Company and industry experience. Emphasis is placed on industry experience where the Company's experience is insufficient to be statistically reliable. Mortality improvement has been projected to occur throughout the future lifetime of annuitants.

With respect to group insurance, the Company conducts mortality experience studies annually. The expected future mortality experience is incorporated into the calculation of policy liabilities for this block.

To manage the mortality risk, actual claims experience is monitored on a monthly basis. Reinsurance is utilized to limit the losses from any single claim or catastrophic event.

Morbidity

The Company uses industry experience tables appropriate to its type of business, modified to reflect emerging Company experience.

Investment Return

The Canadian Asset Liability Method (CALM) is the method prescribed by the standards of the Canadian Institute of Actuaries to ensure the adequacy of assets backing the policy liabilities.

The CALM method involves projecting asset and liability cash flows for each business segment under a set of prescribed interest rate scenarios, plus additional scenarios chosen by the Appointed Actuary. Net cash flows are invested in new assets, if positive, or assets are sold or borrowed against to meet cash needs in accordance with the assumptions of each scenario. The policy liabilities are at least as great as the liabilities determined under the worst of the scenarios tested. Moreover, the projected asset cash flows include assumptions for investment expenses and credit risk.

The Company's financial position may be affected by interest rates. The uncertainty related to interest rate fluctuations is that economic losses or gains can occur following the disinvestment or reinvestment of future cash flows. The Company's policy of closely matching cash flows of the assets with those of corresponding liabilities reduces the risk of interest rate fluctuations.

To manage exposure to currency risk, the Company's strategy is to match assets with related liabilities by currency.

Income Taxes

The policy liabilities were established to be consistent with the use of the future income taxes method of accounting for income taxes. Accordingly, policy liabilities are reduced by an amount of $66.3 ($61.7 as at December 31, 2002) to reflect the discounted value of policy-related tax cash flows in excess of future income tax liabilities.

Years ended December 31, 2003 and 2002 (in millions of dollars, unless otherwise indicated)

14 POLICY LIABILITIES (continued)

Expenses

Policy maintenance expenses were calculated using the Company's internal expense studies. No productivity gains are projected. Unit expense factors are projected to increase in the future assuming an appropriate inflation rate.

Lapses

Expected lapse rate assumptions are generally based on the Company's recent lapse experience. Estimates of future lapse rates are adjusted to take into account industry experience where the Company's experience is limited.

Long-term lapse rate assumptions take into account the emerging trend of lower lapse rates with respect to lapse supported types of products.

Margins for Adverse Deviations

The best estimate assumptions are adjusted to include margins for adverse deviations to recognize the uncertainty in establishing these best estimates and to allow for possible deterioration in expected experience. These margins increase policy liabilities and provide reasonable assurance that the amount of assets backing the policy liabilities is sufficient to cover the impact of adverse experience.

The range for these margins is set out in standards issued by the Canadian Institute of Actuaries. The factors considered in the selection of appropriate margins include the degree of uncertainty with respect to the expected experience and the relative volatility of potential losses. To the extent that the amounts provided for adverse deviations are not required to offset future adverse experience, they will be released back into income over the remaining term of the policies.

Reinsurance

In the normal course of business, the Company uses reinsurance to limit its risk on every life insured. Maximum benefit amount limits, which vary by line of business, are established for life and health insurance.

The reinsurance agreements are with well-established, well-rated reinsurers. Although reinsurance agreements provide for the recovery of claims arising from the liabilities ceded, the Company retains primary responsibility to the policyholders.

Total policy liabilities on the balance sheet are presented net of reinsurance ceded.

Deferred Acquisition Costs

Deferred acquisition costs (DAC) are being held as a negative policy liability on the balance sheet. Acquisition costs are expenses incurred in the acquisition of individual segregated fund contracts that will be written off over the period of surrender charges. The liability recognizes the amount of future revenues that are available to recover the unamortized amount of the acquisition costs.

Changes in policy liabilities

	2003	2002
	$	$
Balance at the beginning of the year	**7,299.6**	7,014.5
Impact of change in future income tax rate	**(3.9)**	—
Reinsurance recaptured	**208.0**	—
Changes in assumptions	**5.7**	(2.7)
Normal changes	**560.9**	288.1
Foreign currency translation	**(75.9)**	(0.3)
Balance at the end of the year	**7,994.4**	7,299.6

Years ended December 31, 2003 and 2002 (in millions of dollars, unless otherwise indicated)

15 OTHER LIABILITIES

Other liabilities consist of the following:

	2003	2002
	$	$
Unearned premiums	**61.1**	33.6
Other contractual liabilities	**19.1**	11.8
Mortgage debt	**39.7**	40.9
Future income tax liabilities	**177.9**	143.1
Accounts payable and accrued:		
Due to reinsurers	**7.4**	12.0
Due to agents	**18.8**	18.8
Administration fees payable	**5.0**	4.6
Income and premium taxes	**32.9**	53.1
Withholding taxes and deductions	**15.1**	12.7
Interest payable	**15.9**	2.1
Employee future benefits	**32.7**	34.2
Miscellaneous	**153.7**	126.1
Total	**579.3**	493.0

The reimbursement of the mortgage debt over the next five years will be:

2004	2005	2006	2007	2008
$	$	$	$	$
1.1	1.2	1.3	1.4	1.5

The interest paid during 2003 was $2.8 ($4.2 in 2002).

The fair value of the other liabilities, except the mortgage debt, is approximately the same as the carrying value due to their short-term nature. The fair value of the mortgage debt is $40.6 ($41.1 in 2002) taking into consideration the interest rates attached to the mortgage debt and the current interest rates.

16 DEFERRED NET REALIZED GAINS

Deferred net realized gains are realized gains and losses which have not yet been recognized in income and which will be amortized into future net investment income in accordance with the accounting policies described in note 2.

	2003	2002
	$	$
Related to policy liabilities		
Bonds	**290.6**	257.7
Stocks	**12.2**	13.1
Mortgages	**9.6**	10.1
Real estate	**5.4**	6.5
	317.8	287.4
Related to equity		
Bonds	**16.9**	23.7
Stocks	**8.4**	0.2
Mortgages	**0.1**	—
Real estate	**4.0**	2.8
	29.4	26.7
Total	**347.2**	314.1

Years ended December 31, 2003 and 2002 (in millions of dollars, unless otherwise indicated)

17 SUBORDINATED DEBENTURES

Subordinated debentures represent direct unsecured obligations of the Company that are subordinate to the Company's policyholders and other creditors.

	2003		2002	
	Carrying value $	**Fair value $**	Carrying value $	Fair value $
Subordinated debenture bearing basic interest of 1.25% and variable interest tied primarily to the return on the investment fund, redeemable at the option of the Company beginning in February 2004 or repayable on maturity in 2010.	**60.0**	**75.1**	60.0	61.1
Series 2 subordinated debenture, bearing interest of 8.40%, redeemable at the option of the Company since June 2001 or repayable on maturity in 2006.	**—**	**—**	50.0	55.8
Series 3 subordinated debenture, bearing basic interest of 6.25% plus variable interest of no more than 5.25% under certain conditions, redeemable at the option of the Company beginning in February 2004 or repayable on maturity in 2010.	**75.0**	**75.2**	75.0	77.2
Total	**135.0**	**150.3**	185.0	194.1

Total interest on subordinated debt in 2003 was $17.2 ($14.1 in 2002).

On December 22, 2003, the Company redeemed the Series 2 Subordinated Debentures with a cash payment of 110.923 dollars per 100 dollars of principal for a total of $55.5. This resulted in an increase of $5.5 in the financing expenses, and a $5.7 gain on the sale of the related portfolio of assets which is fully recognized in net investment income.

For the $60.0 debenture, the fair value is the market value of the investment fund. For the other debenture, the fair value represents the value of a similar instrument on the market.

18 NON-CONTROLLING INTEREST

The non-controlling interest of Industrial Alliance is:

	2003	2002
	$	$
As at December 31		
Trust units issued by Industrial Alliance Capital Trust		
150,000 Trust securities – Series A	**150.0**	—

Total interest on the Trust units in 2003 was $4.2.

Years ended December 31, 2003 and 2002 (in millions of dollars, unless otherwise indicated)

18 NON-CONTROLLING INTEREST (continued)

Industrial Alliance Trust Securities (IATS)

On July 4, 2003, Industrial Alliance Capital Trust (the Trust), a trust controlled by Industrial Alliance, issued $150.0 of non-voting IATS.

Each IATS entitles the holder to receive a non-cumulative semi-annual fixed cash distribution of 28.57 dollars, representing an annual yield of 5.714%, payable out of the Trust's net distributable funds. If this distribution is not paid, the Company cannot declare dividends on its common shares. The holder can convert, using his exchange right, into class A series YY preferred capital shares.

Subject to regulatory approval, on December 31, 2008 and on any distribution date thereafter, the Trust may redeem the IATS, in whole or in part and, under certain circumstances, the Trust may redeem all but not less than all of the IATS prior to December 31, 2008. The IATS have a maturity date of December 31, 2013.

The IATS constitute Tier 1 capital for regulatory purposes.

IATS issue costs of $2.6 ($1.8 after tax) were recognized as a charge to the retained earnings in 2003.

19 SHARE CAPITAL

The authorized share capital consists of the following:

Common shares

Unlimited common shares without par value, with voting rights.

Preferred shares

10,000,000 preferred shares with a par value of 25 dollars each, without voting rights, with a non-cumulative preferential dividend of 1% until 2004, to be subsequently revised at a rate that will be based on market prices, issuable in series with equal ranking as for dividend and capital.

3,000,000 Series 1 preferred shares, redeemable at the issuing value at the Company's option under certain conditions, including approval by the Inspector General of Financial Institutions, convertible at the option of the holder over a period of 4 years starting in 2001 into common shares at 95% of the market value of these shares. This conversion option may itself lead to a conversion of the series 1 preferred shares into series 2 preferred shares at the Company's option.

3,000,000 Series 2 preferred shares, issuable for the sole purpose of conversion of series 1 preferred shares, redeemable at the option of the Company at the issuing value increased by a 5.26% premium under certain conditions, including the necessity to proceed with the issue of series 3 preferred shares.

3,000,000 Series 3 preferred shares, redeemable after 5 years at their issue value subject to approval by the Inspector General of Financial Institutions or convertible into common shares at their market value.

An unlimited number of class A – Series A preferred shares, without par value, without voting rights, non-cumulative semi-annual dividend in cash of 0.5625 dollars per share, redeemable at the option of the Company after December 31, 2008, subject to approval by the Inspector General of Financial Institutions, for 25 dollars per share.

An unlimited number of class A – Series YY preferred shares, without par value, without voting rights, non-cumulative semi-annual dividend in cash of 0.450 dollars per share, redeemable at the option of the Company for 25 dollars per share or convertible into common shares after December 31, 2008, subject to approval by the Inspector General of Financial Institutions. Also, convertible at the option of the shareholders into common shares at each conversion date, the last day of June and December of each year after June 30, 2014.

An unlimited number of class A – Series ZZ preferred shares, without par value, without voting rights, non-cumulative semi-annual dividend in cash of 0.5625 dollars per share, redeemable at the option of the Company for 25 dollars per share or convertible into common shares after December 31, 2008, subject to approval by the Inspector General of Financial Institutions. Also, convertible at the option of the shareholders into common shares at each conversion date, the last day of June and December of each year after June 30, 2014.

Years ended December 31, 2003 and 2002 (in millions of dollars, unless otherwise indicated)

19 SHARE CAPITAL (continued)

	2003		2002	
	Number of shares (in thousands)	Amount $	Number of shares (in thousands)	Amount $
Common shares				
Balance at beginning of year	**37,648.2**	**382.2**	37,648.2	382.2
Shares issued	**1,697.4**	**56.3**	—	—
Balance at end of year	**39,345.6**	**438.5**	37,648.2	382.2
Shares held in treasury	**(10.8)**	**(0.2)**	(10.8)	(0.2)
	39,334.8	**438.3**	37,637.4	382.0
Preferred shares – Series 1				
Balance at beginning of year	**3,000.0**	**75.0**	3,000.0	75.0
Shares converted to common shares	**(2,250.0)**	**(56.3)**	—	—
Balance at end of year	**750.0**	**18.7**	3,000.0	75.0
Preferred shares – Series A				
Balance at beginning of year	—	—		
Shares issued	**4.0**	**0.1**		
Balance at end of year	**4.0**	**0.1**		
Shares held in treasury	**(4.0)**	**(0.1)**		
	—	—		
Total share capital		**457.0**		457.0

On December 24, 2003, the Company announced its intention to make a normal course issuer bid. As part of this bid, the Company is authorized to purchase 1.9 million common shares at the prevailing market price until December 23, 2004. The common shares thereby purchased will not be cancelled and will remain available for future use.

On April 22, 2003, the Company converted 2,250,000 of its series 1 preferred shares that were held by Capital d'Amérique CDPQ inc., into 1,697,447 common shares for an aggregate amount of $56.3, being 75% of the series 1 preferred shares portfolio.

Years ended December 31, 2003 and 2002 (in millions of dollars, unless otherwise indicated)

20 EARNINGS PER SHARE

	2003	2002
	$	$ (restated) (note 3)
Shareholders' net income	**135.0**	97.4
Less: dividends on preferred shares	**(0.3)**	(0.7)
Common shareholders' net income	**134.7**	96.7
Effect of the conversion on the common shareholders' net income		
Reduction of financing expenses, net of income taxes and dividends on preferred shares	**1.5**	—
Common shareholders' net income on a diluted basis	**136.2**	96.7
Weighted daily average number of shares outstanding	**38,808,008**	37,527,989
Add: diluted effect of stock options granted and outstanding	**10,888**	34,115
Add: diluted effect of convertible preferred stock into common stock	**985,753**	—
Weighted average number of shares outstanding on a diluted basis	**39,804,649**	37,562,104
Earnings per share (in dollars)		
basic	**3.47**	2.57
diluted	**3.42**	2.57

21 STOCK-BASED COMPENSATION

Stock Option Plan

At the annual meeting on May 2, 2001, the shareholders approved the Company stock option plan for the directors and management personnel of the Company and its subsidiaries, set up on February 10, 2001. The Board grants a certain number of common stock options to the management personnel and determines the exercise price of the options, the expiry dates and the dates on which the options can be exercised.

The exercise price of each option is equal to the average weighted price of the shares traded on the Toronto Stock Exchange during the five days of trading preceding the option grant date. The options are generally valid for 10 years. They can be exercised at the rate of 25% per year for the first four anniversaries of the grant.

A total of 2,630,652 common shares (about 7% of the outstanding common shares) can be granted by the Board subject to an agreement of a maximum of 1.4% of the issued and outstanding common shares of the Company, per person eligible for the plan.

No options will be granted to the directors before approval by the shareholders.

The following table presents the activities:

	2003		2002	
	Number of stock options (in thousands)	Weighted average exercise price (in dollars)	Number of stock options (in thousands)	Weighted average exercise price (in dollars)
At beginning of year	**931.3**	**41.89**	495.6	38.11
Granted	**247.0**	**37.26**	473.0	45.62
Forfeited	**27.5**	**40.99**	37.3	38.92
Exercised	**—**	**—**	—	—
At end of year	**1,150.8**	**40.92**	931.3	41.89
Exercisable at end of year	**339.4**	**40.64**	115.6	38.11

Years ended December 31, 2003 and 2002 (in millions of dollars, unless otherwise indicated)

21 STOCK-BASED COMPENSATION (continued)

Fair value of 2003 options was estimated to be between $10.83 and $10.97 at the grant date using the Black-Scholes option pricing model. The pricing model assumes the following information:

Risk free interest rate between	**4.41%**	**and**	**4.85%**
Expected volatility			**25%**
Expected life			**7 years**
Expected dividends between	**1.83%**	**and**	**1.98%**

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option pricing models also require estimates which are highly subjective, including expected volatility of the underlying stock. Changes in assumptions can materially affect estimates of fair values.

	Outstanding Options		
Exercise prices $	Number of outstanding options (in thousands)	Average remaining life (years)	Number of exercisable options (in thousands)
38.11	449.8	6.96	224.9
45.62	458.0	8.11	114.5
37.25	238.0	9.12	—
37.99	5.0	9.83	—
Total	1,150.8	7.88	339.4

Share Purchase Plan for Employees

The Company adopted an employee share purchase plan effective February 10, 2001. Under the plan, employees can contribute up to 5% of their salary to a maximum of $1,500 per year. The Company matches 50% of the employee's contribution amount. The Company contribution is charged to the income statement as a general expense. The shares purchased by the employee share purchase plan have to be kept by the employees for a minimum period of two years before they can be sold.

Deferred Share Units (DSU)

The plan is offered to the directors and management personnel of the Company and its subsidiaries. Under this plan, each member may choose to receive all or a percentage of their annual incentive bonus or remuneration related to the board or committee in the form of DSUs. This election to participate must be made on an annual basis.

Years ended December 31, 2003 and 2002 (in millions of dollars, unless otherwise indicated)

22 EMPLOYEE FUTURE BENEFITS

The Company maintains defined benefit pension plans which provide payment to most of its employees.

	2003		2002	
	Pension plans **$**	Other plans **$**	Pension plans $	Other plans $
Plan assets				
Assets at beginning (at market value)	**227.1**	**—**	227.5	—
Actual return on assets	**36.6**	**—**	0.6	—
Company contributions	**9.3**	**—**	6.6	—
Employee contributions	**4.9**	**—**	3.8	—
Benefits paid	**(12.3)**	**—**	(11.4)	—
Assets at end (at market value)	**265.6**	**—**	227.1	—
Plan obligations				
Accrued obligations at beginning	**246.3**	**15.6**	229.2	17.1
Current service cost	**9.9**	**0.3**	7.4	0.5
Interest cost	**14.8**	**0.9**	14.9	1.0
Employee contributions	**4.9**	**—**	3.8	—
Benefits paid	**(12.3)**	**(0.8)**	(11.8)	(0.3)
Gains on settlement	**—**	**—**	—	(2.7)
Actuarial gains	**23.0**	**0.1**	2.8	—
Accrued obligations at end	**286.6**	**16.1**	246.3	15.6
Accrued pension obligations are composed of:				
Funded plans	**247.3**	**—**	210.7	—
Unfunded plans	**39.3**	**16.1**	35.6	15.6
	286.6	**16.1**	246.3	15.6
Plan benefit liability				
Plan deficit	**(21.0)**	**(16.1)**	(19.2)	(15.6)
Unamortized net actuarial gains (losses)	**16.9**	**(0.3)**	15.3	(1.2)
Accrued benefit liability	**(4.1)**	**(16.4)**	(3.9)	(16.8)
The Company's net benefit plan expense is as follows:				
Current service cost	**9.9**	**0.3**	7.4	0.5
Interest cost	**14.8**	**0.9**	14.9	1.0
Expected return on assets	**(16.0)**	**—**	(15.0)	—
Amortization of transitional obligation	**(0.4)**	**—**	(0.4)	—
Amortized actuarial gains (losses)	**1.2**	**(0.9)**	0.7	(0.7)
Gains on settlement	**—**	**—**	—	(2.7)
Net benefit plan expense	**9.5**	**0.3**	7.6	(1.9)

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are:

	2003		2002	
	Pension plans **%**	Other plans **%**	Pension plans %	Other plans %
Discount rate	**6.0**	**6.0**	6.5	6.5
Expected long-term rate of return	**7.0**	**—**	6.5	—
Rate of compensation increase	**3.5**	**3.5**	3.5	3.5

The investment of the pension plan contains 142,676 common shares of the Company (142,676 in 2002) for a market value of $6.2 ($5.6 in 2002).

Years ended December 31, 2003 and 2002 (in millions of dollars, unless otherwise indicated)

22 EMPLOYEE FUTURE BENEFITS (continued)

The amounts in the balance sheet are:

	2003	2002
	$	$
Employee future benefit assets included in deferred expenses (note 13)	**8.6**	9.9
Employee future benefit liabilities (note 15)	**32.7**	34.2

23 OFF BALANCE SHEET FINANCIAL INSTRUMENTS

The Company is an end user of derivative financial instruments in the normal course of managing exposure to fluctuations in interest rates and market values.

The following table summarizes the Company's derivative portfolio, the fair value and related credit exposure.

	2003			
	Equity contracts **$**	Currency contracts **$**	Interest rate contracts **$**	Total contracts **$**
Notional amount by term to maturity				
Less than 1 year	**229.3**	**27.0**	**65.9**	**322.2**
1 to 5 years	**19.8**	**9.9**	**21.7**	**51.4**
Over 5 years	**—**	**22.5**	**—**	**22.5**
Total	**249.1**	**59.4**	**87.6**	**396.1**
Fair value	**(0.2)**	**1.9**	**(1.8)**	**(0.1)**
Credit exposure risk				
Maximum credit risk	**6.2**	**2.8**	**0.6**	**9.6**
Potential future credit exposure	**15.1**	**2.5**	**0.1**	**17.7**
Credit equivalent amount	**21.3**	**5.3**	**0.7**	**27.3**

	2002			
	Equity contracts $	Currency contracts $	Interest rate contracts $	Total contracts $
Notional amount by term to maturity				
Less than 1 year	283.9	46.7	138.9	469.5
1 to 5 years	95.3	42.6	64.4	202.3
Over 5 years	—	17.1	—	17.1
Total	379.2	106.4	203.3	688.9
Fair value	3.5	(5.6)	(5.5)	(7.6)
Credit exposure risk				
Maximum credit risk	7.4	—	—	7.4
Potential future credit exposure	23.6	3.9	0.3	27.8
Credit equivalent amount	31.0	3.9	0.3	35.2

The notional amount represents the amount to which a rate or price is applied to determine the cash flows to be exchanged and does not represent direct credit exposure. Maximum credit risk is the estimated cost of replacing all derivative contracts which have a positive value, should the counterparty default. Potential future credit exposure quantifies the potential for future losses which may result from future movement in market rates. The Company's exposure at each balance sheet date is limited to the risk that a counterparty does not honour the terms of a derivative contract, and the Company applies the same criteria in selecting counterparties as it does for investing in bonds. As at December 31, 2003 and 2002, all counterparties have a credit rating of A or higher.

The fair value of derivative financial instruments represents the estimated amount that the Company should pay or receive on the balance sheet date to reverse its position.

Years ended December 31, 2003 and 2002 (in millions of dollars, unless otherwise indicated)

24 SEGMENTED INFORMATION

The Company operates principally in one dominant industry segment, the life and health insurance industry, and offers individual and group life and health insurance products, savings and retirement plans, and segregated funds.

Segmented income statements

	2003					
	Individual		Group			
	Life and Health $	Annuities $	Life and Health $	Pensions $	Other Activities* $	Total $
Revenues						
Premiums	**683.4**	**658.7**	**603.0**	**556.4**	**65.2**	**2,566.7**
Net investment income	**306.1**	**143.5**	**58.2**	**170.3**	**(0.8)**	**677.3**
Fees and other revenues	**2.7**	**72.0**	**10.7**	**4.7**	**17.6**	**107.7**
	992.2	**874.2**	**671.9**	**731.4**	**82.0**	**3,351.7**
Operating expenses						
Cost of commitments to policyowners	**579.4**	**308.3**	**454.8**	**420.2**	**44.6**	**1,807.3**
Net transfer to segregated funds	**—**	**438.8**	**—**	**271.4**	**—**	**710.2**
Commissions, general and other expenses	**302.6**	**84.2**	**184.5**	**20.4**	**35.0**	**626.7**
	882.0	**831.3**	**639.3**	**712.0**	**79.6**	**3,144.2**
Net income before income taxes	**110.2**	**42.9**	**32.6**	**19.4**	**2.4**	**207.5**
Income taxes	**(35.3)**	**(13.7)**	**(11.9)**	**(5.3)**	**(1.0)**	**(67.2)**
Net income before allocation of other activities	**74.9**	**29.2**	**20.7**	**14.1**	**1.4**	**140.3**
Allocation of other activities	**1.5**	**0.6**	**(1.2)**	**0.5**	**(1.4)**	**—**
Net income for the year	**76.4**	**29.8**	**19.5**	**14.6**	**—**	**140.3**
Attributable to shareholders	**72.2**	**29.7**	**19.5**	**13.6**	**—**	**135.0**
Attributable to participating policyholders' account	**4.2**	**0.1**	**—**	**1.0**	**—**	**5.3**

	2002 (restated)					
	Individual		Group			
	Life and Health $	Annuities $	Life and Health $	Pensions $	Other Activities* $	Total $
Revenues						
Premiums	663.9	590.7	543.0	491.4	48.2	2,337.2
Net investment income	98.2	140.8	56.2	158.6	(3.6)	450.2
Fees and other revenues	3.3	67.6	5.5	4.1	14.8	95.3
	765.4	799.1	604.7	654.1	59.4	2,882.7
Operating expenses						
Cost of commitments to policyowners	393.8	241.8	409.7	331.9	34.1	1,411.3
Net transfer to segregated funds	—	447.7	—	290.2	—	737.9
Commissions, general and other expenses	295.3	84.2	168.4	18.5	26.8	593.2
	689.1	773.7	578.1	640.6	60.9	2,742.4
Net income (loss) before income taxes	76.3	25.4	26.6	13.5	(1.5)	140.3
Income taxes	(19.9)	(7.0)	(8.1)	(2.1)	0.3	(36.8)
Net income (loss) before allocation of other activities	56.4	18.4	18.5	11.4	(1.2)	103.5
Allocation of other activities	(0.6)	(0.3)	(0.1)	(0.2)	1.2	—
Net income for the year	55.8	18.1	18.4	11.2	—	103.5
Attributable to shareholders	50.6	18.2	18.4	10.2	—	97.4
Attributable to participating policyholders' account	5.2	(0.1)	—	1.0	—	6.1

* Includes other segments and intercompany eliminations.

Years ended December 31, 2003 and 2002 (in millions of dollars, unless otherwise indicated)

24 SEGMENTED INFORMATION (continued)

Segmented assets

	2003					
	Individual		Group			
	Life and Health **$**	Annuities **$**	Life and Health **$**	Pensions **$**	Other Activities* **$**	Total **$**
Assets						
Invested assets	**4,299.3**	**2,092.2**	**975.1**	**2,414.1**	**144.8**	**9,925.5**
Goodwill	**30.5**	**—**	**19.9**	**—**	**6.1**	**56.5**
Other assets	**105.7**	**34.9**	**56.0**	**48.5**	**80.5**	**325.6**
Total	**4,435.5**	**2,127.1**	**1,051.0**	**2,462.6**	**231.4**	**10,307.6**

	2002					
	Individual		Group			
	Life and Health $	Annuities $	Life and Health $	Pensions $	Other Activities* $	Total $
Assets						
Invested assets	3,920.2	1,978.4	811.1	2,102.6	122.6	8,934.9
Goodwill	30.3	—	19.9	—	1.7	51.9
Other assets	98.5	34.4	49.4	45.9	74.2	302.4
Total	4,049.0	2,012.8	880.4	2,148.5	198.5	9,289.2

* Includes other segments and intercompany eliminations.

25 PREMIUMS

	2003					
	Individual Insurance **$**	Individual Annuities **$**	Group Pensions **$**	Group Insurance **$**	General Insurance **$**	Total **$**
Invested in general fund	**683.4**	**227.9**	**145.2**	**603.0**	**65.2**	**1,724.7**
Invested in segregated funds	**—**	**430.8**	**411.2**	**—**	**—**	**842.0**
Total	**683.4**	**658.7**	**556.4**	**603.0**	**65.2**	**2,566.7**

	2002					
	Individual Insurance $	Individual Annuities $	Group Pensions $	Group Insurance $	General Insurance $	Total $
Invested in general fund	663.9	198.7	126.7	543.0	48.2	1,580.5
Invested in segregated funds	—	392.0	364.7	—	—	756.7
Total	663.9	590.7	491.4	543.0	48.2	2,337.2

Years ended December 31, 2003 and 2002 (in millions of dollars, unless otherwise indicated)

26 GUARANTEES, COMMITMENTS AND CONTINGENCIES

In the normal course of its operations, the Company frequently concludes several types of contracts or agreements which, in certain cases, can be considered as guarantees, commitments or contingencies. In this note, in addition to the presentation of the commitments and contingencies, the Company is also applying Accounting Guideline AcG-14 concerning the information to be provided concerning the disclosure of guarantees. The application of this new accounting guideline has no impact on the Company's overall results.

Contracts

The Company currently has a few contracts whose commitments are described below. These contracts cover various products and services which, due to their nature, are difficult to cancel.

2004	2005	2006	2007	2008	2009
$	$	$	$	$	$
16.4	14.3	11.6	5.6	1.6	0.7

Legal Proceedings

In connection with its operations, from time to time the Company is named as defendant in actions for damages and costs allegedly sustained by plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, the Company does not believe that it will incur any material loss or expense in connection with such actions and the latter are taken into account at the conclusion of the concerned cases.

Indemnization

Under certain unusual circumstances, the Company could be called upon to pay specific indemnization. The primary indemnization would concern the Company's directors, among others, in case of an event not covered by the liability insurance on the directors whose amount is indeterminable.

Coverage

In the management of its operations, the Company must sometimes cover certain defaults of credit, capital or payment conditions. The Company cannot quantify the aggregate of these coverages.

27 SUBSEQUENT EVENT

FundEX

The Company has tendered a bid to increase its share in FundEX Investments Inc. by 50% to 75%. This bid was approved on February 4, 2004 by the regulatory authorities concerned and is now subject to final agreement between FundEX Investments Inc. and the Company. The amount committed for this transaction is $6.0.

28 COMPARATIVE FIGURES

Certain comparative figures have been restated to comply with the current year's presentation.

Five-Year History

Consolidated Financial Data

Years ended December 31 (in millions of dollars, unless otherwise indicated)

	2003	2002 (restated[1])	2001	2000	1999 (pro forma[2])
Profitability					
Income					
Net income	**140.3**	103.5	106.6	100.8	82.0
Net income to participating policyholders	**5.3**	6.1	2.7	2.7	7.0
Net income to shareholders	**135.0**	97.4	103.9	98.1	75.0
Unusual items	**—**	—	—	(6.0)	(5.3)
Goodwill expense	**—**	—	3.4	2.9	2.8
Provision for Teleglobe	**—**	19.4	—	—	—
Adjusted net income to shareholders	**135.0**	116.8	107.3	95.0	72.5
Performance measures					
Return on common shareholders' equity					
According to net income	**14.3%**	11.8%	14.0%	15.0%	13.2%
According to adjusted net income	**14.3%**	14.0%	14.4%	14.5%	12.6%
Earnings per share (basic)					
According to net income	**$ 3.47**	$ 2.57	$ 2.75	$ 2.59	$ 1.98
According to adjusted net income	**$ 3.47**	$ 3.09	$ 2.84	$ 2.51	$ 1.91
Earnings per share (diluted)					
According to net income	**$ 3.42**	$ 2.57	$ 2.75	$ 2.59	$ 1.98
According to adjusted net income	**$ 3.42**	$ 3.09	$ 2.84	$ 2.51	$ 1.91
Adjusted net income to shareholders by line of business					
Individual Insurance	**72.2**	67.1	57.4	47.8	37.6
Group Insurance	**19.5**	18.8	12.8	4.5	(2.6)
Individual Annuities	**29.7**	18.5	21.3	27.0	24.5
Group Pensions	**13.6**	12.4	15.8	15.7	13.0
Total	**135.0**	116.8	107.3	95.0	72.5
Capitalization					
Capital structure					
Subordinated debentures	**135.0**	185.0	185.0	185.0	185.0
Non-controlling interest (IATS[3])	**150.0**	—	—	—	—
Participating policyholders' account	**64.8**	59.5	53.4	50.7	47.9
Common shares	**438.3**	382.0	382.0	379.2	591.8
Preferred shares	**18.7**	75.0	75.0	75.0	75.0
Retained earnings and contributed surplus	**582.4**	473.5	397.6	316.9	—
Currency translation account	**(2.5)**	7.5	10.2	7.4	5.1
Total capital structure	**1,386.7**	1,182.5	1,103.2	1,014.2	904.8
Book value per common share outstanding	**$ 25.91**	$ 22.92	$ 20.98	$ 18.72	$ 16.88
Capitalization measures					
Solvency ratio (MCCSR[4])	**221%**	186%	187%	187%	—
Capitalization ratio[5]	**16.2%**	15.2%	14.8%	14.1%	10.8%
Debt to capital ratio[6]	**20.6%**	15.6%	16.8%	18.2%	20.4%
Market Data					
Number of common shares outstanding (in millions)	**39.3**	37.7	37.7	37.6	—
Price per share[7]	**$ 43.80**	$ 39.49	$ 46.65	$ 40.65	—
Market capitalization	**1,721.3**	1,486.8	1,756.3	1,527.7	—
Dividend per common share	**$ 0.70**	$ 0.64	$ 0.60	$ 0.15	—

Consolidated Financial Data

Years ended December 31 (in millions of dollars, unless otherwise indicated)

	2003	2002	2001	2000	1999 (pro forma[2])
Business Growth[8]					
Revenues					
Premiums					
Including CMA[9]	**2,566.7**	2,337.2	2,077.0	2,239.0	2,009.2
Excluding CMA	**2,565.7**	2,335.7	1,889.0	1,815.4	1,593.7
Net investment income	**677.3**	450.2	542.3	599.2	743.2
Fees and other income	**107.7**	95.3	93.6	88.1	68.0
Total revenues					
Including CMA	**3,351.7**	2,882.7	2,712.9	2,926.3	2,820.4
Excluding CMA	**3,350.7**	2,881.2	2,524.9	2,502.7	2,404.9
Individual Insurance					
Sales (excluding CMA)	**128.7**	133.3	135.6	125.3	114.4
Premiums	**683.4**	663.9	658.8	607.8	534.6
Group Insurance					
Sales					
Employee Plans	**53.3**	92.4	59.1	37.4	37.9
Creditor Insurance	**130.1**	124.5	108.0	100.3	90.5
Special Markets Group (SMG)	**71.5**	65.7	32.3	27.8	23.2
Premiums and premium equivalents	**702.2**	586.9	483.3	417.9	356.5
Individual Annuities					
Sales	**658.7**	590.7	529.1	613.8	477.3
Funds under management					
General funds	**1,775.3**	1,737.5	1,721.7	1,786.0	2,003.8
Segregated funds	**3,261.5**	2,795.2	2,928.1	2,859.8	2,560.4
Total	**5,036.8**	4,532.7	4,649.8	4,645.8	4,564.2
Group Pensions					
Sales (excluding CMA)	**567.8**	561.3	344.1	257.5	220.8
Premiums					
Including CMA	**556.4**	491.4	407.0	616.5	636.3
Excluding CMA	**555.4**	489.9	235.0	202.8	220.8
Funds under management/administration					
Including CMA	**3,704.0**	2,984.9	2,716.4	4,178.1	3,903.3
Excluding CMA	**3,678.1**	2,956.5	2,687.6	2,657.2	2,530.8
Assets under management/administration					
General funds	**10,307.6**	9,289.2	8,886.3	8,571.8	9,652.3
Segregated funds	**5,042.2**	4,173.5	4,049.6	5,432.8	3,382.3
Other	**4,223.7**	3,298.2	2,192.7	90.6	6.8
Total	**19,573.5**	16,760.9	15,128.6	14,095.2	13,041.4
General Expenses and Human Resources					
General expenses	**237.4**	229.9	212.0	205.4	192.0
Number of employees					
Life insurance companies	**2,138**	2,110	2,035	1,948	1,932
General insurance company	**329**	305	237	178	115
Number of Career agents	**1,309**	1,310	1,270	1,218	1,187

Consolidated Financial Data

Years ended December 31 (in millions of dollars, unless otherwise indicated)

	2003	2002	2001	2000	1999
Investments					
Book value	**9,925.5**	8,934.9	8,570.7	8,260.9	9,333.3
Market value	**10,893.7**	9,751.8	9,173.7	8,839.9	9,733.6
Market value/book value ratio	**109.8%**	109.1%	107.0%	107.0%	104.2%
Distribution of investments by asset category					
Bonds	**55.7%**	52.5%	48.9%	46.9%	47.5%
Mortgages	**25.1%**	28.3%	31.0%	33.0%	35.9%
Stocks	**9.4%**	8.1%	8.2%	8.6%	6.9%
Real estate	**4.3%**	4.9%	5.0%	4.8%	4.2%
Other	**5.5%**	6.2%	6.9%	6.7%	5.5%
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%
Distribution of investments by region					
Atlantic provinces	**4.6%**	5.3%	4.4%	4.0%	4.1%
Quebec	**50.1%**	50.5%	49.3%	49.8%	45.4%
Ontario	**20.5%**	20.3%	20.5%	20.1%	23.0%
Western provinces	**17.9%**	18.1%	18.5%	20.2%	22.7%
Outside Canada	**6.9%**	5.8%	7.3%	5.9%	4.8%
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%
Quality of investments					
Gross impaired investments	**60.5**	60.4	39.8	35.7	38.0
Provisions for losses	**40.7**	41.1	15.7	14.3	14.1
Net impaired investments	**19.8**	19.3	24.1	21.4	23.9
Net impaired investments as a % of investments	**0.20%**	0.22%	0.28%	0.26%	0.26%
Provision as a % of gross impaired investments	**67.3%**	68.0%	39.1%	39.9%	37.1%
Bonds					
Rating A and higher	**93.6%**	92.2%	91.4%	92.6%	92.5%
Rating BBB	**6.3%**	7.7%	8.6%	7.2%	7.4%
Rating BB and lower	**0.1%**	0.1%	0.0%	0.2%	0.1%
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%
Delinquency rate	**0.03%**	0.03%	0.03%	0.00%	0.00%
Mortgages					
Single family	**17.1%**	18.4%	18.7%	19.0%	16.2%
Multi-residential	**55.6%**	52.5%	51.3%	49.7%	56.9%
Commercial, industrial and other	**27.3%**	29.1%	30.0%	31.3%	26.9%
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%
Delinquency rate					
Insured loans	**0.75%**	0.80%	0.27%	0.48%	0.52%
Conventional loans	**0.97%**	0.69%	0.62%	0.08%	0.12%
Total	**0.86%**	0.74%	0.48%	0.23%	0.28%
Proportion of loans which are insured	**48.6%**	45.3%	40.9%	39.3%	39.7%
Proportion of delinquent loans which are insured	**42.2%**	49.0%	23.3%	80.4%	74.2%
Stocks					
Market value/book value ratio	**102.9%**	96.1%	98.2%	102.1%	107.4%
Real estate					
Occupancy rate	**93.9%**	92.1%	96.3%	96.7%	95.1%

1 2002 profitability data have been restated to reflect the change in accounting policies for the stock option plan.

2 1999 data are pro forma to present the information on a stock company basis.

3 Industrial Alliance Trust Securities.

4 Minimum continuing capital and surplus requirements.

5 Equal to the capital structure divided by the total actuarial liabilities and other liabilities.

6 Equals the total of the subordinated debentures and the IATS divided by the capital structure.

7 The shares were issued on February 3, 2000 at $15.75 per share.

8 Sales are defined as follows for each line of business:

Individual Insurance: first-year annualized premiums.

Group Insurance: first-year annualized premiums for employee plans, single premiums for creditor insurance and net premiums for SMG.

Individual Annuities: premiums (accounting).

Group Pensions: gross premiums for accumulation products and insured annuities as well as deposits paid directly to the trust company.

9 Canadian Medical Association.

Industrial Alliance Group Management Team

Industrial Alliance Insurance and Financial Services

■ **Yvon Charest** – F.S.A., F.C.I.A.
President and Chief Executive Officer

■ **Normand Pépin** – F.S.A., F.C.I.A.
Executive Vice-President
Life Subsidiaries and
Individual Insurance and Annuities

■ **Yvon Côté** – CFA
Vice-President and General Manager
Finance and Investments

Michel Gauthier
B.Sc. Math., C.M.A., F.L.M.I.
Vice-President and General Manager
Administration
Individual Insurance and Annuities

Michel Sanschagrin – F.S.A., F.C.I.A.
Vice-President and General Manager
Administration and Chief Actuary*

Georges Smith – LL.L., F.C.G.A.
Vice-President and General Manager
Corporate Affairs
Secretary of the Company

René Chabot – F.S.A., F.C.I.A.
Senior Vice-President, Group Pensions

Denis Ricard – F.S.A., F.C.I.A.
Senior Vice-President and
Chief Actuary**

Raymond A. Bertrand – CLU, F.L.M.I.
Vice-President, Sales, Career Section

Jean-François Boulet – B.R.I., CRIA
Vice-President, Human Resources

Jacques Carrière – M.E.Sc.
Vice-President
Investor Relations and
Secretary of the Management Committee

Réjean Devin – B.Sc.Phys., F.L.M.I.
Vice-President, Information Systems

■■ **Maurice Germain** – F.S.A., F.C.I.A.
Vice-President, Internal Audit

Paul R. Grimes – CFP, CLU, Ch.F.C.
Vice-President, Sales, Ontario

■■ **Richard Legault** – CA, CFA
Vice-President
Investments, General Funds

Bruno Michaud – B.A.A., F.L.M.I./M.
Vice-President, Sales
General Agents Section
Quebec and the Atlantic Provinces

■■ **Jean-Pierre Paradis**
Vice-President, Mortgage Loans

■■ **Jacques Parent** – F.S.A., F.C.I.A.
Vice-President, Sales and Underwriting
Group Insurance

Yvon Sauvageau – M.E.Sc.
Vice-President
Development, Financial Services

Claude Tessier – B.Sc.A.
Vice-President
Real Estate Investments

* Until May 14, 2004 (retirement date)
** As of March 29, 2004 (in replacement of Michel Sanschagrin)

The National Life Assurance Company of Canada

■ **René E. Trudeau**
B.Sc., F.S.A., F.C.I.A., M.A.A.A.
Executive Vice-President
and Chief Operating Officer

Gary J. Coles – F.L.M.I./M., A.C.S.
Senior Vice-President, Administration

■■ **David E. Kent** – B.A., M.A., M.B.A.
Senior Vice-President, Group Insurance

David H. Creswell – B.A., LL.B., F.L.M.I.
General Counsel and Corporate Secretary

Sharon Smith – B.A.
Vice-President
Individual Administration

Herbert Huck – B.B.A., CA, C.M.A.
Vice-President, Taxation
and Advanced Marketing

■■ **Refat A. Jiwani** – F.C.C.A., C.M.A., F.L.M.I.
Vice-President and Corporate Controller

Emil J. Petko – B.A., LL.B.
Vice-President and
Associate General Counsel

Susan Stanfield – C.H.R.P.
Vice-President, Human Resources
and Communications

Brian E. Wrixon – B.A., CLU
Vice-President, Individual Sales

Industrial Alliance *Pacific* Insurance and Financial Services

■ **John B. Gill** – M.B.A.
President

Gerald Bouwers – F.S.A., F.C.I.A.
Vice-President and General Manager
Individual Insurance and Annuities, Canada

Ronald W. Pepper – A.S.A., M.A.A.A.
Vice-President and General Manager
Individual Insurance, U.S.

Michael L. Stickney
M.B.A., F.S.A., F.C.I.A.
Vice-President and General Manager
Group Insurance

Douglas A. Carrothers – LL.B., M.B.A.
Vice-President, Law and Investments
and Corporate Secretary

Kathryn M. Cooper
Vice-President, Human Resources

Paul R. Grimes – CFP, CLU, Ch.F.C.
Vice-President, Sales, Ontario

Alnoor R. Jiwani
Vice-President, Information Services

Gordon A. Robinson – M.A.
Vice-President and Controller

David L. Stewart
Vice-President, Sales, SAL

Industrial Alliance Auto and Home Insurance

Michel Laurin – F.C.I.A., F.C.A.S.
President and Chief Operating Officer

Jocelyne Guay
Vice-President, Operations

Industrial Alliance Mutual Funds Inc.

David Scandiffio – B.Sc., CFA
President and Chief Executive Officer

Industrial Alliance Securities Inc.

Gaétan Plante – F.C.S.I.
President

■ Member of the Planning Committee
■■ Responsibilities on the Group level (life companies)

Note – The information contained on this page takes into account changes to the Industrial Alliance Group senior management team that were announced at the beginning of March 2004.

Offices

Industrial Alliance Insurance and Financial Services Inc.

Head Office – Quebec City
1080 Saint-Louis Road, Sillery
PO Box 1907, Stn. Terminus
Quebec City, QC G1K 7M3
(418) 684-5000
1-800-463-6236
www.inalco.com

■ **Ontario Regional Office**
160 Eglinton Avenue East
7th Floor
Toronto, ON M4P 3B5
(416) 487-0242

Group Insurance Employee Plans

Atlantic Provinces Regional Sales Office – Halifax
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Dartmouth, NS B3B 1Y2
(902) 422-6479
1-800-255-2116

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(418) 650-1821

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680 Sherbrooke Street West
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(514) 499-3750

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Calgary
777 8th Avenue S.W.
Suite 2050
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(403) 266-7582

Vancouver
1055 West Hastings Street
Suite 1130
Vancouver, BC V6E 2E9
(604) 689-0388

Mortgage Loans

Quebec City
925 Saint-Louis Road
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Quebec City, QC G1S 1C1
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Montreal
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(514) 499-6680

Group Pensions

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Quebec City
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1-800-549-4097

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1-800-697-9767

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522 University Avenue
8th Floor
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1-877-902-4920

The National Life Assurance Company of Canada

Head Office – Toronto
522 University Avenue
Toronto, ON M5G 1Y7
(416) 598-2122
www.NationalLife.ca

Industrial Alliance *Pacific* Insurance and Financial Services

Head Office – Vancouver
2165 Broadway West
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www.iaplife.com

Group Insurance Special Markets Group

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1-888-725-2886

Group Insurance Group Creditor Insurance (SAL)

BC Regional Sales Office – Vancouver
2165 Broadway West
PO Box 5900
Vancouver, BC V6B 5H6
(604) 734-7969

Western Regional Sales Office – Edmonton
Terrace Plaza, Suite 840
4445 Calgary Tr. Southbound
Edmonton, AB T6H 5R7
(780) 435-1833

Winnipeg
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Suite 102
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(204) 942-8907

Ontario Regional Sales Office – Toronto
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Quebec Regional Sales Office – Montreal
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Atlantic Regional Sales Office – Halifax
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Industrial Alliance Auto and Home Insurance

Head Office – Quebec City
925 Saint-Louis Road
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(418) 650-4600
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Industrial Alliance Mutual Funds Inc.

Head Office – Toronto
160 Eglinton Avenue East
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Toronto, ON M4P 3B5
(416) 487-0242

Industrial Alliance Securities Inc.

Head Office – Quebec City
1080 Saint-Louis Road, Sillery
PO Box 1907, Stn. Terminus
Quebec City, QC G1K 7M3
(418) 684-5171
1-866-684-5171
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Investia Financial Services Inc.

Head Office – Quebec City
1080 Saint-Louis Road, Sillery
PO Box 1907, Stn. Terminus
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(418) 684-5548
1-888-684-5548
www.investia.ca

■ Toronto regional office for Industrial Alliance Insurance and Financial Services and Industrial Alliance *Pacific* Insurance and Financial Services

How To Reach Us

To reach us, there are three different services at your disposal, depending on the type of information you wish to obtain.

- If you have questions regarding your shares, please contact:

  The Computershare Trust Company of Canada
  Industrial Alliance's Share Transfer Agent

  Telephone:
  (514) 982-7888
  1-877-684-5000 (toll-free)

  E-mail:
  inalco@computershare.com

- For questions on Industrial Alliance products and services, please contact your agent. If you do not have one, please consult the *Offices* page of this annual report to find the office nearest you.

- If you wish to obtain financial data on Industrial Alliance, please contact:

  Investor Relations Department
  Industrial Alliance Insurance and Financial Services Inc.

  Telephone:
  (418) 684-5000, extension 5282
  1-800-463-6236, extension 5282 (toll-free)

  Fax:
  (418) 684-5050

  E-mail:
  investors@inalco.com

  Website:
  www.inalco.com

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Ce rapport annuel est également disponible en français.

Why the Elephant?

Industrial Alliance chose the elephant as its company symbol in 1992 when it celebrated its centennial anniversary. This choice was made based on the numerous attributes that Industrial Alliance has in common with this magnificent animal...

Two symbols of strength

Industrial Alliance and the elephant share exceptional strength. Both are highly energetic and can easily take on even the most colossal of tasks.

Two symbols of solidity

Industrial Alliance and the elephant represent solidity and inspire confidence. They are also a reassuring presence in their surrounding environment.

Two symbols of longevity

Being a century old company, Industrial Alliance is also known, like the elephant, for its longevity and proverbial memory.

Two symbols of commitment

Despite its imposing stature, the elephant is regarded as having a strong sense of family and a highly developed sense of responsibility, two values that are also fundamental at Industrial Alliance.

Two symbols of caring

The elephant is synonymous with warmth and gentleness. It is also a sensitive, friendly and endearing creature. Similarly at Industrial Alliance, we take a human approach towards our clients and care about their values. We remain attentive to our clients' needs in order to better understand and serve them according to their individual goals and objectives.