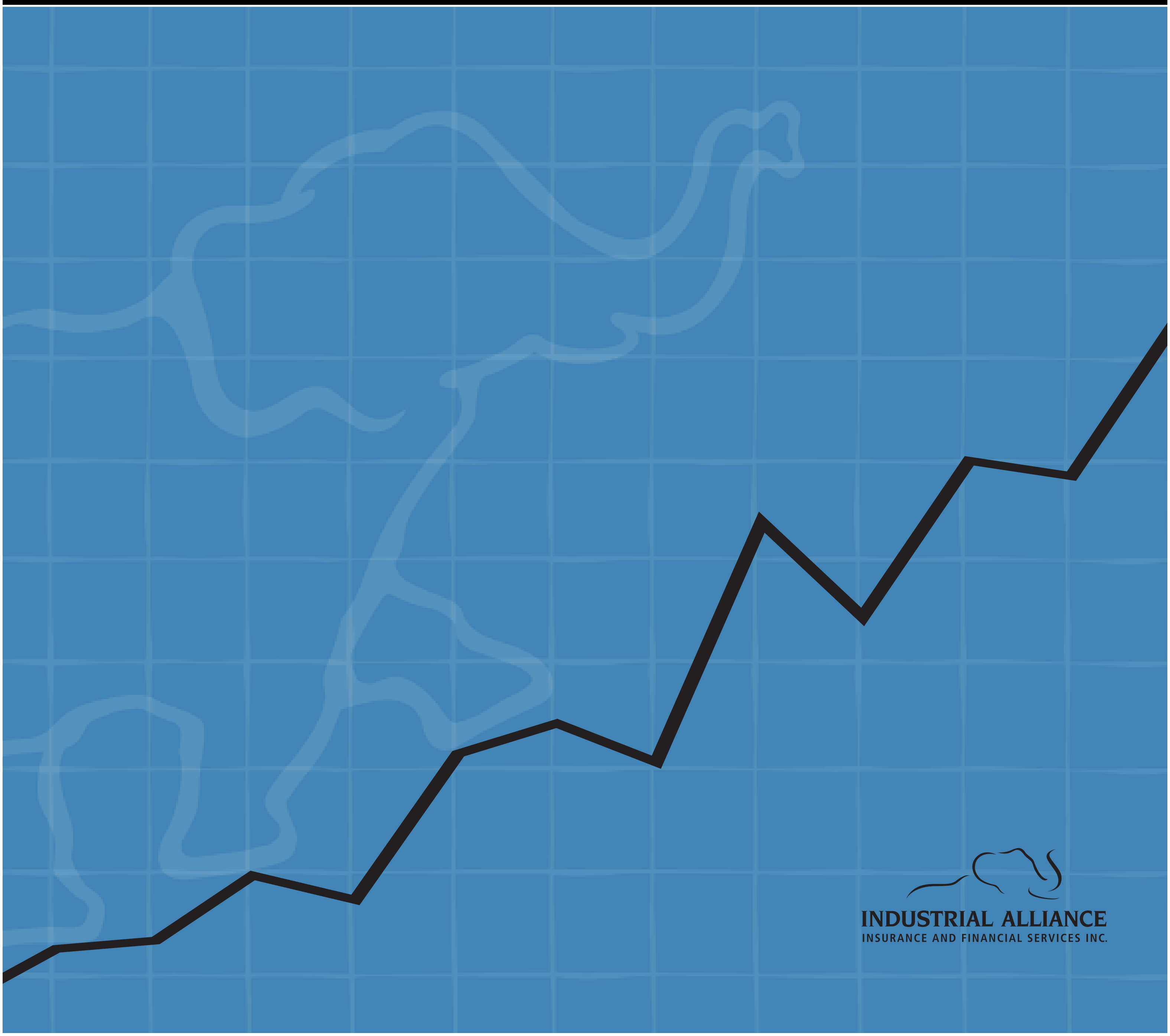
Making Strides

in a Consolidated Environment



INDUSTRIAL ALLIANCE
INSURANCE AND FINANCIAL SERVICES INC.

Making Strides in a Consolidated Environment

Industrial Alliance's overall results and achievements in 2004 once again confirm the Company's ability to outdo itself, regardless of the challenges, and to quietly continue making gains in an increasingly competitive environment.

2004 Highlights

PROFITABILITY

- Record shareholder net income: $155.1 million, up 13% ▪ Diluted EPS: $3.89, up $0.42 ▪ Return on equity: 13.6% (within the 13% to 15% target range) ▪ Net income includes a $6.1 million after-tax integration charge for National Life
- Net income excluding the integration charge: $161.2 million, up 18% ▪ Diluted EPS: $4.05, up $0.58 ▪ Return on equity: 14.1% (13.9% in 2003)

PREMIUM AND ASSET GROWTH

- New premium high: $2.9 billion, an increase of 11% (20% excluding the special transfer from National Bank Trust in 2003)
- New asset high: $28.5 billion, an increase of 46%

SALES GROWTH (see the *Management's Discussion & Analysis* section for the definition of sales)

- *Individual Insurance* – Sales growth of 9% (down 1% for the industry) ▪ Met our objective of "industry growth + 5%" ▪ 3rd in Canada with 13.2% of the market (4th in 2003 with 11.9% of the market)
- *Individual Annuities* – Sales growth of 38% ▪ Segregated fund sales up 55% (up 28% for the mutual fund industry) ▪ Net segregated fund sales positive again: 4th in Canada with 13.7% of the market (4th in 2003 with 11.4% of the market)
- *Group Insurance: Employee Plans* – Sales growth of 5% ▪ 17% increase for our target market of groups with 50 to 1,000 employees (6% for the industry)

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SALES GROWTH (cont.)

- *Group Creditor Insurance* (primary market: car dealers) – Sales up 2% despite a decrease in car sales
  - Number one in Canada with over 40% of the market
- *Group Insurance: Special Markets Group* (primary market: risks that are not well covered by traditional insurance providers) – Sales up 11%
- *Group Pensions* – Sales down 17% (up 25% excluding the special transfer from National Bank Trust in 2003)

SOLVENCY

- Solvency ratio of 222% (221% at the end of 2003) ▪ Exceeds the Company's 175% to 200% target range

QUALITY OF INVESTMENTS

- Quality of investments continues to be excellent and even improved in 2004 ▪ Net impaired investments represent 0.08% of all investments (0.20% as at December 31, 2003)

MAIN ACHIEVEMENTS

- Integration of National Life with the parent company ▪ Impact on EPS: down $0.16 in 2004; neutral in 2005; estimated increase of $0.05 in 2006 and $0.17 per year starting in 2007
- Continued expansion into the wealth management sector with the purchase of fund manager BLC-Edmond de Rothschild Asset Management Inc. ▪ Addition of $1.8 billion in assets under management (December 31, 2004)
- Signing of a 10-year exclusive distribution agreement with Laurentian Bank for the sale of Industrial Alliance mutual funds ▪ Addition of a network of some 500 representatives
- Increase in ownership of mutual fund brokerage firm FundEX Investments Inc. from 25% to 83.5%
  - Addition of $4.3 billion in assets under administration (December 31, 2004)
- Purchase of a fourth securities brokerage firm, Lynch Investments Inc. ▪ Company merged with Industrial Alliance Securities Inc. ▪ Addition of some $70 million in assets under administration
- Transfer of $53.5 million from the participating policyholders' account to the retained earnings account
  - Impact of transfer: increase in the Company's book value of $1.31 per common share for 2003
- Continued development outside Quebec for the Group Insurance and Pensions sectors; opening of new offices and strengthening of sales teams across the country
- Successful issue of $150 million in subordinated debentures
- Continued launch of innovative, competitive products

Why Invest
in Industrial Alliance

Created over 100 years ago, Industrial Alliance is a life and health insurance company that offers a wide range of insurance products and financial services. The fifth largest life and health insurance company in Canada, Industrial Alliance is recognized for its vitality and its ongoing ability to adapt to change. Industrial Alliance made its debut on the Stock Exchange in 2000 where markets were quick to recognize the performance of the Company, whose stock rose by over three and a half times its initial price during this five year period.

Why invest in Industrial Alliance?

1 BECAUSE IT HAS A WELL-THOUGHT-OUT, EFFICIENT STRATEGY

- Thanks to a multi-channel distribution network
- Thanks to well-articulated and well-executed development strategies in each line of business
- Thanks to its ability to exploit new business opportunities

2 BECAUSE IT HAS A PROVEN TRACK RECORD IN TERMS OF PROFITABILITY AND GROWTH

- Thanks to the consistent achievement of market guidance
- Thanks to a corporate culture that promotes the ongoing improvement of operations, low production costs and consistent innovation in product development

3 BECAUSE IT IS A MODERATE-RISK INVESTMENT

- Thanks to its high embedded value
- Thanks to a conservative approach in calculating reserves
- Thanks to the excellent quality of its investments
- Thanks to its limited, appropriate use of reinsurance
- Thanks to a history with few unexpected events

4 BECAUSE IT HAS A CREDIBLE MANAGEMENT TEAM

- Thanks to experienced managers
- Thanks to an entrepreneurial culture
- Thanks to a vision rooted in long-term development
- Thanks to a policy that promotes internal succession
- Thanks to the loyalty of its staff

In short, because Industrial Alliance has a proven strategy that is efficiently executed by a dedicated group of individuals.

Message from the Chairman of the Board

RAYMOND GARNEAU
CHAIRMAN OF THE BOARD

This is my last message as Chairman of the Board of Industrial Alliance. I have reached the maximum age specified by Company regulations for serving on the board, and will therefore be stepping down at the Company's upcoming annual meeting on May 4.

I started at Industrial Alliance a little over 16 years ago. I held the positions of President and Chief Operating Officer and President and Chief Executive Officer consecutively until 2000. I became Chairman of the Board in 1996, a position that came to require more and more of my time.

Industrial Alliance has changed significantly over the course of these years. What strikes me most about how the Company has evolved is its growth. Since 1988, the Company's capital has increased more than threefold, premiums have almost quadrupled, profits have increased more than fivefold, and insurance, annuity and investment fund assets have increased almost sevenfold.

What has driven Industrial Alliance's growth during these years is, of course, the Company's success in its core business of life and health insurance, but also its capacity to exploit new business opportunities.

For example, in 1988 Industrial Alliance was barely present in the segregated fund market. Today, the Company manages close to $6 billion in segregated fund assets.

Five years ago, Industrial Alliance was not present at all in the mutual fund market. Today, it has over $1 billion in assets under management in this sector, and just under $6 billion in assets under administration.

Similarly, five years ago Industrial Alliance had no operations in the securities market. Today, the Company has close to $900 million in securities assets under administration.

During the 80s, Industrial Alliance also had a dream: that of becoming a major Canada-wide insurance company. My predecessor at the helm of the Company had already laid the foundations of what would spearhead Industrial Alliance's development outside Quebec with the acquisition of North West Life (known today as Industrial Alliance *Pacific*), a Vancouver-based life insurance company, and National Life, a Toronto-based life insurance company.

Thanks to these acquisitions and the sustained organic growth of the parent company itself outside Quebec, Industrial Alliance has successfully risen to the rank of fifth largest life and health insurance company in Canada, with half of its premiums drawn from outside Quebec.

But perhaps the most significant development to take place at Industrial Alliance in recent years was the Company's decision to change its status from that of a mutual company to a stock company. This decision was not an easy one. We knew that this change would have a profound impact on Industrial Alliance's corporate culture and that the exacting discipline of the stock markets would be a source of constant pressure on the Company.

Once again, Industrial Alliance was up to the challenge. By demutualizing, the Company was able to unlock some $550 million in accumulated wealth, which until then had been inaccessible, and distribute it among close to 700,000 policyholders. Markets were quick to recognize the Company's performance, whose stock rose by over three and a half times its initial price in five years. Today, the Company has a market capitalization of over $2 billion, ranking Industrial Alliance among the 100 largest public companies in Canada.

Over the years, in keeping with its corporate culture, Industrial Alliance has quietly grown from a life insurance company into a financial institution. It has grown from a company in Quebec into a Canada-wide company. And it has grown from a mutual company into a stock company.

But this is not to say that things were easy. The Company took a hard hit in the early 90s. Like many others, it was forced to dispose of its trust company in the wake of the real estate market collapse. It is often said that adversity brings out the best in us. This was certainly the case for Industrial Alliance. This experience forced us to stand ever closer, redefine what we wanted to become and once again move confidently towards the future. It is perhaps this event, more than any other, that highlighted the strength of the Industrial Alliance team and the Company's adaptability.

Another facet that has always ensured Industrial Alliance's success is the strength of its distribution networks. Over the course of my years with Industrial Alliance, I've gotten to know the thousands of men and women who form these distribution networks. They have a difficult but very essential task: that of helping people to ensure the protection of their loved ones and the financial independence of their families.

Corporate Governance and Transparency

Not only has Industrial Alliance changed over the years, the insurance industry has changed as well, as has the role of company boards of directors. One such change is the increased emphasis on the whole concept of corporate governance. Once again, Industrial Alliance has adapted well to this new reality.

Over the years, Industrial Alliance has engrained a corporate culture based on respect and transparency. In last year's message, I gave a number of examples illustrating the various ways in which the Company was a forerunner, including disclosure in the information circular (which contains more detailed information), the election of board members (members are now elected individually), or board governance in general.

In 2004, my upcoming retirement as Chairman of the Board provided an opportunity to revisit the roles of board members, the board chairman and the president and chief executive officer. In our ongoing efforts to improve corporate governance, we also took our activities with regard to the evaluation of board members and of the board itself to a new level.

One of the most significant developments of 2004 was in the area of compliance with new regulations issued by Canadian securities authorities. With the participation of our subsidiary companies, the entire financial statement certification process was reviewed, and the Audit Committee was presented with clear policies regarding the hiring of personnel from external auditing firms, the assignment of mandates not related to auditing, and the receipt and handling of complaints in the area of accounting.

Board Activities

During the course of 2004, the Board of Directors met nine times and the Board's various committees held a total of twenty-one meetings. The board member participation rate at the different Board and committee meetings was 95%.

At each of its regular meetings, the Board of Directors holds a private session without the participation of management personnel or the president and chief executive officer, who is the only internal director on the Board. As it does every two years, the Board of Directors also held a one-day strategic planning session in 2004. This meeting takes place at a different location than where the Board of Directors usually meets in order to ensure the Board's ability to reflect clearly on its strategy for the future.

It is interesting to look at the various issues examined by the Board of Directors during the course of the year. These include discussions regarding ordinary though nonetheless important matters related to quarterly or annual financial results, for example, or the Company's financing. There were also discussions regarding management succession planning, evaluations, and the Company's action plans. During the year, the Board of Directors also studied a number of possible acquisitions, as the Company continued to quietly put together a wealth management sector that will complement its initial vocation of wealth protection.

Changes in the Board of Directors

During the year, Francesco Bellini tendered his resignation as board member in order to devote more time to his activities in the biomedical field. Mr. Bellini joined the Board of Directors in February 1998 and served on a number of Board committees, including the Human Resources and Corporate Governance Committee. His extensive business experience made him a valuable board member.

To fill this position, the Board of Directors has appointed Robert Lacroix, whose current mandate as Rector of the University of Montreal is about to end. An economist by profession, Mr. Lacroix has always maintained his ties to teaching, despite the challenges of his duties as a rector. Mr. Lacroix currently serves on the Board's Ethics Committee.

New Chairman of the Board

As I stated at the beginning of this message, I am no longer eligible to continue my mandate as Chairman of the Board due to a Company regulation pertaining to the maximum age. Over the last twelve months, the Human Resources and Corporate Governance Committee and the Board of Directors have met several times to consider the choice of a new chairman. Before embarking on an active search, the Board of Directors began by establishing selection criteria and a new description of duties. The Board has chosen to nominate John LeBoutillier as the new Chairman of the Board, and his election will likely take place during the Board meeting that follows the upcoming annual meeting. Mr. LeBoutillier has been a board member since 1997. His knowledge of the Company, combined with his business experience, make him the ideal candidate.

Conclusion

In conclusion, I would like to thank the numerous people with whom I've had the pleasure of working over these past years. Many people come to mind, including all Industrial Alliance management personnel, for so patiently initiating me into the world of life insurance and giving me their constant support, all the agents, for their valuable dedication, all the employees, for their professionalism and commitment to the organization, and all the board members, for their confidence.

In one of my very first messages as Company President, I stated that there were three criteria used to evaluate a company's performance: resistance to the passage of time, the ability to adapt to change and performance in difficult economic times. Industrial Alliance has satisfied all of these criteria. It has endured for over 100 years, it continues to evolve and reinvent itself, and it has emerged strengthened from tumultuous times.

When we demutualized, we chose the theme "Marching into the future". Today, the future is in the hands of a new generation of managers, led by a determined president who himself belongs to a new generation of leaders. If I had one word to say to them, a word that I would want them to remember, to help them perpetuate the successes of past generations, it would be "cohesion". Success can only be achieved through teamwork. And a team can only succeed if it is united.

There is no doubt that Industrial Alliance is here to stay. Indeed, it has all the makings of a successful company.

Thank you.

Raymond Garneau

Message from the President and Chief Executive Officer

YVON CHAREST
PRESIDENT AND CHIEF EXECUTIVE OFFICER

2004 was probably the year we most effectively proved to financial markets that Industrial Alliance is indeed a "major league player", and that not only are we able to compete successfully in the industry, we can also gain market shares in an increasingly competitive environment while maintaining our profit margins.

The Company's results in 2004 are in fact an eloquent response to the concerns of investors who, last year, were wondering if Industrial Alliance was big enough to sustain the intense competition from the industry's "big 3" and deal with the price war that was being waged in the market.

As you will see in this annual report, the Company has achieved all of its profitability and business growth objectives and surpassed its sales growth objective of five percentage points higher than the industry in almost all sectors, particularly in the two personal financial service sectors.

Not only was 2004 a good year for profitability and business growth, it was also a very eventful year in terms of achievements. Two of these achievements will have a profound impact on the Company in years to come, these being the integration of National Life's operations with those of the parent company and the purchase of BLC-Edmond de Rothschild Asset Management.

Profitability

With respect to profitability, we set a new record in terms of shareholder net income, closing the year with adjusted net income of $161.2 million, which is an 18% increase over 2003. This profit translates into diluted earnings per share of $4.05, an increase of $0.58 over the previous year, and a 14.1% return on equity, which is in the middle of our 13% to 15% target range.

This result excludes the $6.1 million (after-tax) integration charge for National Life, our Toronto subsidiary. If we include this charge, net income totals $155.1 million, a 13% increase over the previous year.

All sectors obtained excellent profits in 2004 and income was up in all sectors, particularly Group Insurance, which obtained high experience gains throughout the year. Individual Annuities had another good year as well, owing to strong stock market performances. Results for the Individual Insurance and Group Pensions sectors were in line with expectations.

Business Growth

Strong sales and good business persistency brought premium income up to $2.9 billion in 2004, an 11% increase over 2003. All sectors ended the year with higher sales than the previous year on a comparable basis, owing to good results in almost all quarters.

2004 was a particularly good year for the Individual Insurance sector, where sales grew by 9% over 2003. This is a very positive result for Industrial Alliance, particularly when we compare the Company's results with those of the industry, where sales were down 1% in 2004. This result ranks the Company third in Canada for individual life insurance sales in 2004, with 13.2% of the market. This is one rank higher than in 2003.

The two annuity sectors also obtained good results, a clear sign that investors have not lost confidence in the equity markets. Individual Annuities sales exceeded our expectations, growing 38% over 2003, while Group Pensions sales were up 25% on a comparable basis.

In the Group Insurance sector, employee plan sales were excellent in our target market of medium-sized businesses, growing 17% over 2003. Sales were also up in the two other Group Insurance segments: Creditor Insurance and Special Markets Group (SMG).

Assets under management and under administration jumped 46% this year, reaching $28.5 billion as at December 31, 2004. The purchase of fund manager BLC-Edmond de Rothschild Asset Management and the acquisition of a majority interest in FundEX Investments are the two factors that made the difference in asset growth. The favourable sales results, good market performance and solid growth of our wealth management subsidiaries also contributed to the strong growth of assets.

Achievements

2004 was marked by several achievements that will further strengthen Industrial Alliance's competitive position over the next few years. Following are some of the Company's main achievements in 2004:

- The integration of the operations of its National Life subsidiary with its own;
- The purchase of BLC-Edmond de Rothschild Asset Management, a fund manager;
- The signing of a 10-year exclusive distribution agreement with Laurentian Bank to sell Industrial Alliance mutual funds;
- The purchase of a majority interest in FundEX Investments, a mutual fund brokerage firm; and
- The ongoing development of operations outside Quebec in the Group Insurance and Group Pensions sectors.

Also, in terms of capitalization, we successfully issued $150 million in new subordinated debentures at a particularly advantageous cost, and transferred $53.5 million from the participating policyholders' account to the retained earnings account.

Guidance to the Markets

Turning to 2005, our confidence in the future allows us to reiterate our objective of a 13% to 15% return on equity, which translates into a 10% to 12% increase in earnings per share.

With respect to sales, 2004 was an excellent year. It will be a challenge to do better in 2005, but the Company has enough confidence in its strategy to reiterate its sales growth objective of five percentage points higher than the industry.

In terms of dividends, the Company aims to increase its payout ratio to about 25% in the next 12 to 15 months, placing it in the middle of the Company's target range of 20% to 30% of sustainable earnings. The Company's current dividend payout ratio is about 22%.

In terms of solvency, the Company will continue to aim for a solvency ratio that is within the 175% to 200% range. This ratio was 222% as at December 31, 2004.

Strategic Orientations

One thing that never changes at Industrial Alliance is the desire to continually find ways to further strengthen the Company's position in the Canadian market and make the Company even more competitive and more profitable.

From a strategic standpoint, we are targeting the following four main objectives:

1 ▪ *Individual Insurance and Annuities sectors – Continue to focus on developing multi-channel distribution networks and ensuring enhanced harmonization in the development and marketing of our products and services by implementing our new Canada-wide distribution strategy, by network rather than by company.*

For several years now, Industrial Alliance has been known for the strength and scope of its distribution networks. This is the key to our success in the personal financial service sectors.

The reason we place so much emphasis on distribution is because life insurance is a complex product that must be sold by well-trained professionals. In wealth management, consumers want to make informed decisions when it comes to retirement planning, protection of capital and tax planning. Here again, they need the advice of professionals they can trust to help them sort through the growing array of products that can meet their needs.

Given the challenges involved in the sale of life insurance and wealth management products, the Company's distribution strategy in the retail market has always been to serve the needs of a variety of selected distributors. Our representatives operate in all regions of the country and can meet the needs of people in all market segments, 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. With distribution networks, success is not achieved overnight. It is a lengthy undertaking, the ultimate objective of which is to build a lasting relationship of trust based on mutual respect.

A few months ago, the Company decided to reorganize the distribution activities of the Group's three life insurance companies by network rather than by company. We believe that this decision will strengthen our strategic position as a leader in the retail market and consolidate our development efforts with respect to our networks.

In addition, several acquisitions over the last few years have allowed us to grow our distribution networks. Our distribution approach remains rooted in traditional life insurance advisor networks, these being our network of dedicated representatives and the independent brokers network. But in order to meet the growing needs of a more and more sophisticated clientele, we have focused our efforts in recent years on the development of non-traditional networks, such as securities brokers and mutual fund advisors.

Finally, more and more distributors from different networks now have licenses in more than one discipline, which allows them to offer clients an even wider range of products and services. Referral agreements also provide certain distributors with access to ancillary products. This is known as "convergence in distribution." With the development of these multiple networks, Industrial Alliance is well-positioned to take advantage of it.

2 ▪ *Group Insurance and Pensions sectors – Grow our market shares, both from a geographic standpoint, by further developing our operations on a Canada-wide scale, and from a target market standpoint, by continuing to focus on medium-sized groups while being opportunistic with respect to large groups.*

In 2004, in the group products and services sectors, we implemented what could become the cornerstone of our future development, by opening new offices in Western Canada, by strengthening our sales teams in various regions, and through our new marketing strategy of using a single brand name for group insurance employee plans.

We have identified the most interesting avenues that offer the greatest potential for growth:

- Development outside Quebec of employee plans and Group Pensions accumulation products (in this regard, we are heading in the right direction since 47% of new employee plans and 35% of accumulation products came from outside Quebec in 2004);
- Development outside Western Canada of creditor insurance and special markets groups; and
- Strengthening our ties with selected representatives.

Moreover, although the focus is on the medium-sized business market for employee plans, we will be opportunistic in the underwriting of larger companies. The success we have achieved in the medium-sized business market in the last few years makes us confident that we can start to venture much more frequently into the larger business market.

3 ▪ *Wealth Management sector – Intensify the development of our activities in this sector by promoting the growth of funds under management, particularly that of products manufactured by Industrial Alliance Group companies.*

The development of the Wealth Management sector, which began at the beginning of 2000, continued in full force in 2004, both through acquisitions and organic growth.

One of the most significant events of 2004 was the acquisition of BLC-Edmond de Rothschild Asset Management (BLCER). As at December 31, 2004, BLCER managed $1.8 billion in assets, composed of $911 million in mutual funds, $147 million in private wealth and $725 million in institutional money. This acquisition allowed Industrial Alliance to expand its family of funds while providing the Company with immediate scale in this sector. It also provided the Company with access to a new distribution network thanks to a 10-year exclusive distribution agreement with Laurentian Bank.

The Company also increased its ownership in FundEX Investments from 25% to 83.5% in 2004. FundEX is a mutual fund broker based in Ontario. It administered $4.3 billion in assets as at December 31, 2004.

To measure the success achieved in this sector, we need to remember that four years ago, Industrial Alliance did not have any operations in the wealth management sector. The Company now has subsidiaries in several segments of this market, including mutual funds (as a manufacturer and distributor), securities, private wealth management and institutional management. Today, the Company administers and manages $8.5 billion in assets in these niche markets.

Over the next few years, we will focus our efforts on the attainment of three objectives: growing our wealth management subsidiaries, making them more efficient and making them profitable.

To do this, we plan to market products that are likely to interest representatives in our new distribution networks (particularly mutual funds and securities) in order to promote the growth of products manufactured by Industrial Alliance Group companies. We plan to begin with segregated funds and mutual funds, and follow with insurance and annuity products. We therefore want to position ourselves in order to take advantage of the convergence in distribution.

4 ▪ *Organizational efficiency – Maximize synergy within the Industrial Alliance Group by integrating the operations of our National Life subsidiary with those of the parent company.*

From an operational standpoint, the measure that will likely have the greatest impact over the next few years is the Company's decision to integrate the operations of its Toronto-based subsidiary, National Life, with those of the parent company. This decision was announced on December 1, 2004.

This integration is the culmination of a process that began a few years ago aimed at maximizing the synergy between the Industrial Alliance Group's three life insurance companies. The integration of National Life will streamline the structure of Industrial Alliance, making it an even more efficient company, thereby allowing us to become even more competitive and profitable.

Although from a legal standpoint, the integration should be completed in 2005, from an operational standpoint, it will take place in 2005 and 2006. It is estimated that the shareholder net income resulting from this integration will increase by $0.17 per share, per year, starting in 2007, once the integration is completed. For 2005, this integration should have a neutral impact on profitability.

Homage to Raymond Garneau

I would like to take this opportunity to underline Raymond Garneau's contribution to the success of Industrial Alliance. Mr. Garneau, the current Chairman of our Board of Directors, will be retiring at our next annual meeting, on May 4, 2005. It is with regret that we must allow him to leave in order that he may pursue other dreams and take on new challenges.

If I had to choose one word to describe Mr. Garneau, it would be "leader". Mr. Garneau joined Industrial Alliance in 1988, just after the merger of Industrial and Alliance, and not long after the Company acquired North West Life (now Industrial Alliance *Pacific*) and National Life. He quickly rallied everyone around him to achieve a common objective: to make Industrial Alliance a *Canada-wide* insurance and *financial services company*. This was no small task… but we did it!

On behalf of personnel, management and the Board of Directors, I wish to say, "thank you", Mr. Garneau. It was a great pleasure to work for you and with you.

Conclusion

To describe 2004 as "excellent" would certainly not be an exaggeration; the justification can be seen in our results, both in terms of profitability and business growth.

To describe the morale of our troops as "excellent" is also justified. Industrial Alliance owes its success to its employees, managers, officers and representatives. The Company also owes its success to their commitment, to their desire for top performance and ongoing improvement, as well as to their mutual respect for one another.

As President, I am particularly proud to be a part of the great Industrial Alliance family. Five years have passed since the IAG ticker symbol was first listed on the Toronto Stock Exchange. What better way to celebrate this achievement than to prove, as we did in 2004, that the Company has clearly passed the ultimate test for any publicly-traded company: to continually increase shareholder value.

It is therefore on a very positive note that we commence 2005 and that we will continue, as the theme of our annual report states... *Making Strides in a Consolidated Environment*.

Thank you.

Strategy

- *Individual Insurance and Annuities sectors –* Continue to focus on developing multi-channel distribution networks and ensuring enhanced harmonization in the development and marketing of our products and services by implementing our new Canada-wide distribution strategy, by network rather than by company.
- *Group Insurance and Pensions sectors –* Grow our market shares, both from a geographic standpoint, by further developing our operations on a Canada-wide scale, and from a target market standpoint, by continuing to focus on medium-sized groups while being opportunistic with respect to large groups.
- *Wealth Management sector –* Intensify the development of our activities in this sector by promoting the growth of funds under management, particularly that of products manufactured by Industrial Alliance Group companies.
- *Organizational efficiency –* Maximize synergy within the Industrial Alliance Group by integrating the operations of our National Life subsidiary with those of the parent company.

Industrial Alliance Group
Planning Committee

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

President and
Chief Executive Officer
Industrial Alliance

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 of Industrial Alliance 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*

B.App.Sc. in engineering, University of British Columbia, Vancouver (1966) and an M.B.A. from the University of Western Ontario, London, Ontario (1969)

Worked for the Industrial Alliance Group from 1969 until 1972 and rejoined the company 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

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

Executive Vice-President and
Chief Operating Officer
National Life

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); member of the American Academy of Actuaries (1979)

Joined National Life in 1969

Occupied various management positions in Actuarial Services, Finance, Taxation and Individual Insurance

Appointed Executive Vice-President and Chief Operating Officer of National Life in 2004

Serves on the Board of Directors of National Life and MD Life

NORMAND PÉPIN
F.S.A., F.C.I.A.

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

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, Industrial Alliance Mutual Funds, Industrial Alliance Fund Management and FundEX Investments

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

YVON CÔTÉ
CFA

Vice-President and
General Manager
Finance and Investments
Industrial Alliance

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; President of Industrial Alliance Investment Management

The Industrial Alliance Group Organization Chart

INDUSTRIAL ALLIANCE
INSURANCE AND FINANCIAL SERVICES INC.

Life and Health Insurance and Financial Services

- INDUSTRIAL ALLIANCE *PACIFIC*™ INSURANCE AND FINANCIAL SERVICES
- National Life

Investment Management

- INDUSTRIAL ALLIANCE INVESTMENT MANAGEMENT INC.

Fund Manufacturing

- INDUSTRIAL ALLIANCE FUND MANAGEMENT INC.
- IA MUTUAL FUNDS™

Mutual Fund Brokerage

- INVESTIA FINANCIAL SERVICES INC.
- FundEX INVESTMENTS INC. 83.5%

Securities Brokerage

- INDUSTRIAL ALLIANCE SECURITIES INC.

General Insurance

- INDUSTRIAL ALLIANCE™ AUTO AND HOME INSURANCE

Trust Services

- INDUSTRIAL ALLIANCE™ TRUST COMPANY

Industrial Alliance Insurance and Financial Services acts in the capacity of both parent company of the Industrial Alliance Group and as an operating company.

™ Trademark of Industrial Alliance Insurance and Financial Services Inc., used under license by Industrial-Alliance *Pacific* Life Insurance Company.
™ Trademark of Industrial Alliance Insurance and Financial Services Inc., used under license by Industrial Alliance Mutual Funds Inc.
™ Trademark of Industrial Alliance Insurance and Financial Services Inc., used under license by Industrial Alliance General Insurance Company.
™ Trademark of Industrial Alliance Insurance and Financial Services Inc., used under license by Industrial-Alliance Trust Company.

Industrial Alliance – Founded in 1892, Industrial Alliance Insurance and Financial Services is a life and health insurance company that offers a full range of insurance products and financial services. The fifth largest life and health insurance company in Canada, Industrial Alliance is at the head of a large financial group, the Industrial Alliance Group, which has operations across the country. The Company's head office is located in Quebec City, Quebec. Industrial Alliance insures over 1.7 million Canadians, employs more than 2,600 people and relies on a distribution network of some 1,400 career agents and 12,000 brokers. Industrial Alliance manages and administers $28.5 billion in assets. Industrial Alliance stock is listed on the Toronto Stock Exchange under the ticker symbol IAG. With a market capitalization of over $2 billion, Industrial Alliance is among the 100 largest stock companies in Canada.

Industrial Alliance *Pacific* – Assets under management: $2.6 billion

Industrial Alliance *Pacific* Insurance and Financial Services is a life and health insurance company that offers a full range of insurance products and financial services. Its head office is located in Vancouver, British Columbia. Founded in 1951, Industrial Alliance *Pacific* previously operated under the name of The North West Life Assurance Company of Canada, which was acquired by Industrial Alliance in 1982. In 1999, Industrial Alliance *Pacific* was merged with Seaboard Life, another Vancouver-based life and health insurance company that was acquired by Industrial Alliance. Industrial Alliance *Pacific* conducts its activities in Canada, mainly in the Western provinces and in Ontario, as well as in certain regions of the Western United States. Its operations are closely integrated with those of Industrial Alliance, its parent company.

National Life – Assets under management and administration: $5.7 billion

The National Life Assurance Company of Canada is a life and health insurance company that offers a full range of insurance products and financial services. Its head office is located in Toronto, Ontario. Founded in 1899, National Life was acquired by Industrial Alliance in 1988. In December 2004, Industrial Alliance announced its decision to combine National Life's activities with its own. This decision was the end result of an integration process that began several years ago aimed at maximizing synergy between the Industrial Alliance Group's three life companies. From a legal standpoint, Industrial Alliance expects to complete the combination by December 31, 2005, once all the necessary approvals have been obtained. The combination will act to streamline Industrial Alliance's structure, which will in turn become even more efficient and profitable on the Canadian market. (For additional information on the combination of National Life's activities, please consult the *Management's Discussion and Analysis* section of this annual report.)

Industrial Alliance Investment Management – Assets under management: $6.0 billion

Created in 2004, Industrial Alliance Investment Management ensures the management of Industrial Alliance's segregated fund and mutual fund portfolios. The company has a team of some fifteen investment professionals who perform the asset allocation and security selection of many diversified funds, in addition to supervising the activities of external managers whose funds are offered by Industrial Alliance.

Industrial Alliance Fund Management – Assets under management: $1.8 billion

Industrial Alliance Fund Management is a fund manufacturer. This new subsidiary was created in December 2004 following the acquisition of BLC-Edmond de Rothschild Asset Management Inc. Industrial Alliance Fund Management specializes primarily in the management of mutual funds, particularly those from the R Funds family and the R Distinction Portfolios, as well as the administration of both private wealth and institutional money, two market segments currently under development for Industrial Alliance. Industrial Alliance Fund Management presently manages over twenty funds.

Industrial Alliance Mutual Funds – Assets under management: $111 million

Industrial Alliance Mutual Funds is a mutual fund manufacturer. The company was created in 2003 following the acquisition of Co-operators Mutual Funds Limited. This acquisition marked an important step in Industrial Alliance's growth strategy in the wealth management sector as it provided Industrial Alliance with the ability to manufacture and offer its own line of mutual funds. Today, Industrial Alliance Mutual Funds offers a family of eight mutual funds. Industrial Alliance plans to combine the activities of Industrial Alliance Mutual Funds with those of Industrial Alliance Fund Management.

Investia Financial Services – Assets under administration: $1.5 billion

Investia Financial Services is a mutual fund broker. Since 1999, Investia has offered the funds of the majority of large Canadian investment fund companies. Investia distributes funds primarily through representatives in Industrial Alliance Group distribution networks, thereby enabling them to offer a more complete range of wealth management products. In 2001, Investia acquired the assets of Groupe Financier Concorde, and in 2003, it acquired Global Allocation Financial Group Inc., two mutual fund brokerage firms.

FundEX Investments – Assets under administration: $4.3 billion

FundEX Investments is a mutual fund broker. Created in 1995, FundEX offers the funds of the majority of large Canadian investment fund companies. FundEX relies on a network of some 450 licensed advisors who distribute funds primarily to high-income clients. Industrial Alliance initially acquired 25% of FundEX in 2002 and later increased its ownership to 83.5% in 2004.

Industrial Alliance Securities – Assets under administration: $896 million

Industrial Alliance Securities is a full-service securities brokerage firm. Created in 2002 following the acquisition of ISL-Lafferty, the company acquired certain assets of BNP (Canada) and Leduc & Associates later that same year. In 2004, it acquired Lynch Investments Inc.

Industrial Alliance Auto and Home Insurance – Direct written premiums: $89.5 million

Industrial Alliance Auto and Home Insurance is a general insurance company that distributes auto and home insurance products to individual consumers in the province of Quebec. The company has conducted activities in its present form since 2000.

Industrial Alliance Trust Company – Assets under management and administration: $533 million

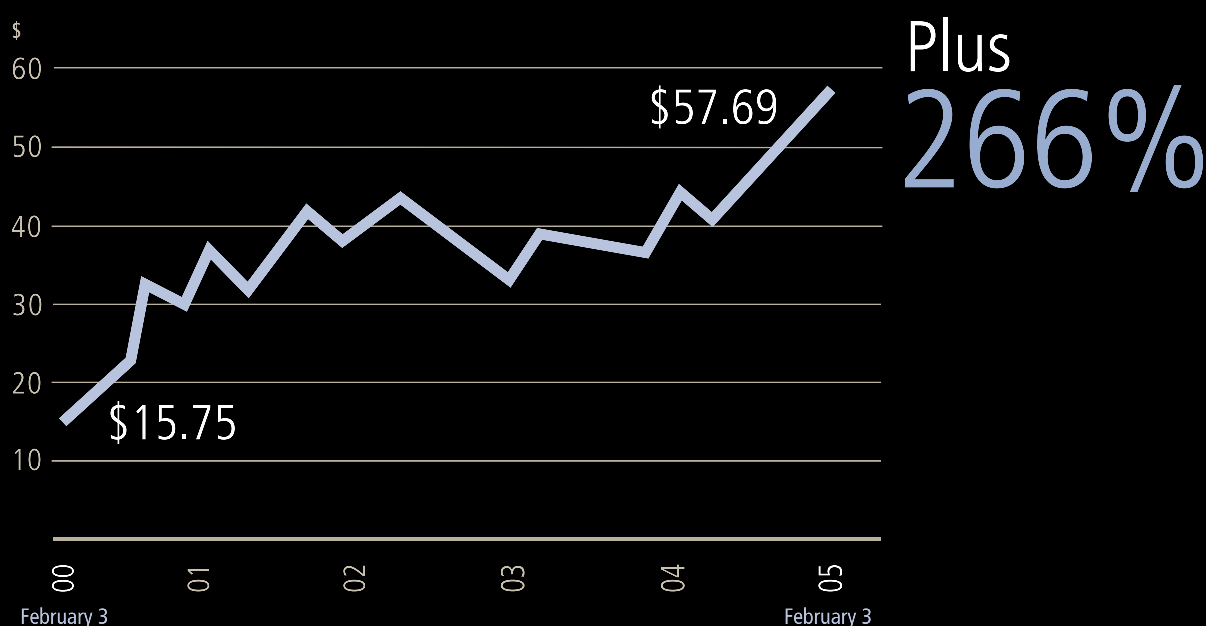
Created in 2000, Industrial Alliance Trust Company offers Industrial Alliance Group companies and their distribution networks select trust products and services that are complementary to their operations.

Demutualization... Five Years Already!

On February 3, 2000, Industrial Alliance entered a new era, making its official debut on the Toronto Stock Exchange under the ticker symbol IAG. That was five years ago.

But what kind of progress has Industrial Alliance made since 2000? What achievements and changes best reflect the Company's development over these past five years? Below is a brief summary of how Industrial Alliance has evolved in the five years since demutualization.

Evolution of our stock price



From February 3, 2000, when Industrial Alliance made its entrance on the Toronto Stock Exchange, to February 3, 2005, the Company's stock has grown by 266%, demonstrating that Industrial Alliance has clearly passed the ultimate test for any publicly-traded company: to increase its shareholder value.

1 PENETRATION OF THE WEALTH MANAGEMENT SECTOR

With the help of nine acquisitions, Industrial Alliance has penetrated a sector that was previously untapped by the Company: the wealth management sector (mutual funds and securities). The Company went from zero assets in the mutual fund and securities sectors in 2000, to $8.5 billion in assets under management and administration at present. Industrial Alliance now has operations in the mutual fund management, private wealth management and institutional management sectors, as well as in the mutual fund and securities brokerage sectors.

In addition to helping it build a strong asset base, these nine acquisitions have also enabled the Company to achieve another goal: that of adding on new distribution networks nationwide.

- Mutual fund, private wealth and money management
  Assets under management: $1.9 billion (December 31, 2004)
- Mutual fund brokerage
  Assets under administration: $5.7 billion (December 31, 2004)
- Securities brokerage
  Assets under administration: $896 million (December 31, 2004)

2 GROWTH IN THE CREDITOR INSURANCE SECTOR

The Automobile Dealers Market

In an ongoing effort to develop new niche markets and strengthen its position in these market segments, Industrial Alliance has made two acquisitions since 2000 in the creditor insurance automobile dealers market, these being Mécagroupe Inc. and Aegis Insurance Corporation. These acquisitions confirmed the Company's desire to remain number one in Canada in this sector. Through Industrial Alliance *Pacific*, the Company now holds a market share of over 40% in the creditor insurance automobile dealers market.

- Creditor insurance
  Premiums: $110 million (2004)

3 DEVELOPMENT OF THE GENERAL INSURANCE MARKET

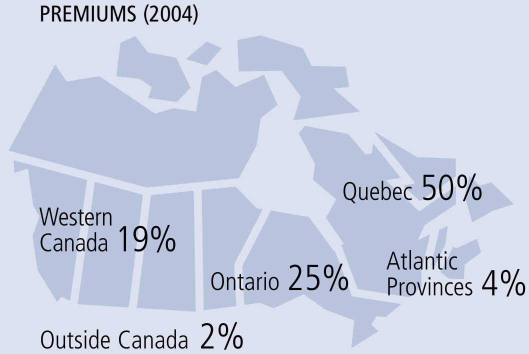
In 2000, Industrial Alliance became the sole owner of Industrial Alliance Auto and Home Insurance, a general insurance company formerly held in co-ownership. The Company immediately drew up an ambitious development plan designed to increase this company's business volume fivefold and make it a leader in the direct distribution of general insurance products in Quebec. In five years, the business volume for this auto and home insurance subsidiary increased from $26 million to $90 million, and the company reached the break-even point in 2003, one year earlier than expected.

- Auto and home insurance
  Direct written premiums: $90 million (2004)

4 PURSUIT OF CANADA-WIDE EXPANSION

In the early 80s, Industrial Alliance's operations were almost exclusively limited to Quebec. Slowly, the Company's operations outside the province began to grow, thanks to three acquisitions: North West Life (now Industrial Alliance *Pacific*), whose head office is in Vancouver; National Life, a Toronto-based company; and Seaboard Life, also based in Vancouver. Industrial Alliance has continued its geographic expansion efforts in recent years by opening new sales offices and continuing to recruit representatives nationwide. Today, half of the Company's business comes from outside Quebec.

PREMIUMS (2004)



5 MAXIMIZATION OF SYNERGY WITHIN THE GROUP

As a public company operating in an environment of consolidation and intense competition, Industrial Alliance is continually striving to improve the efficiency of its operations. In 2000, the Company began a process to harmonize and streamline the operations of the Industrial Alliance Group's life insurance companies. The purpose of this process was to maximize synergy among the three companies in order to further strengthen Industrial Alliance's competitive position in the life and health insurance market. This process culminated in the Company's announcement on December 1, 2004, that the operations of its National Life subsidiary would be integrated with the already largely integrated operations of Industrial Alliance and Industrial Alliance *Pacific*.

INDUSTRIAL ALLIANCE
INSURANCE AND FINANCIAL SERVICES INC.

INDUSTRIAL ALLIANCE *PACIFIC*®
INSURANCE AND FINANCIAL SERVICES

National Life

6 NEW NAME AND VISUAL IDENTITY

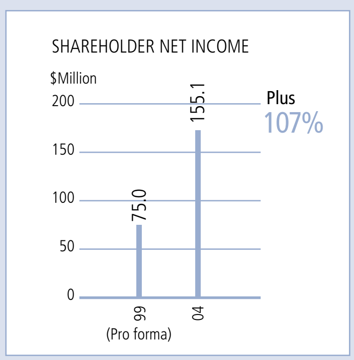
From its status as a mutual company, Industrial Alliance became a stock company in 2000; from a company operating primarily in Quebec, it grew into a company with Canada-wide operations; and from a company mainly in the business of selling life and health insurance, it grew into an insurance and financial services company. In the wake of its entry on the Stock Exchange, Industrial Alliance adopted a new name to better reflect how it had evolved. This new name was adopted as part of the Company's new corporate visual identity.

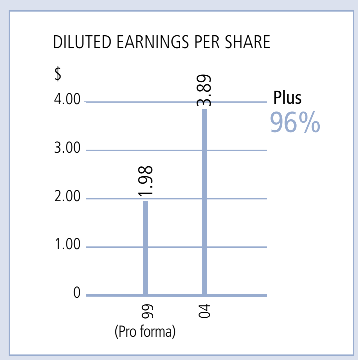
INDUSTRIAL ALLIANCE
LIFE INSURANCE COMPANY

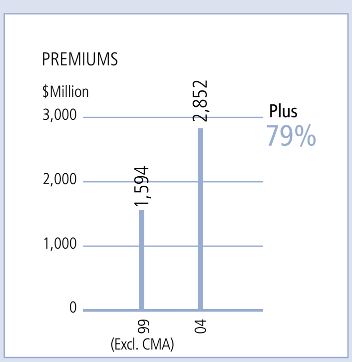
INDUSTRIAL ALLIANCE
INSURANCE AND FINANCIAL SERVICES INC.

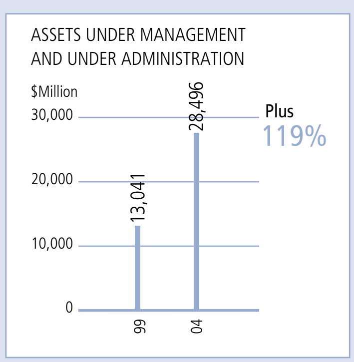
"A picture is worth a thousand words."

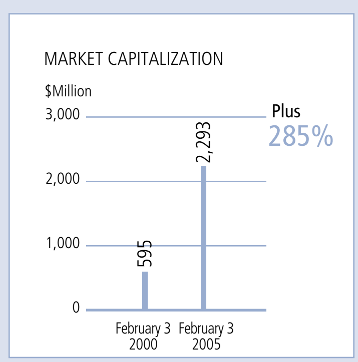
As its results clearly illustrate, the Industrial Alliance Group has made great strides since its demutualization.











Description of our Sectors of Activity

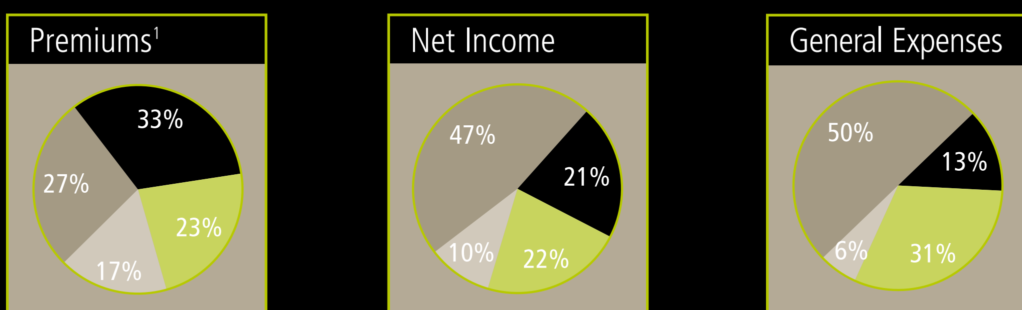
Industrial Alliance conducts activities in four primary sectors:

Two sectors that address the needs of individual consumers:
- Individual Insurance
- Individual Annuities

Two sectors that address the needs of businesses and groups:
- Group Insurance
- Group Pensions

These four sectors embody our main activities – the *core* activities – of Industrial Alliance. These are our "traditional" sectors, those in which we have pursued growth and conducted activities for decades. Together, they ensure a sound diversification of our growth and profit sources.

Diversification by Sector of Activity (2004)



- Individual Insurance
- Individual Annuities
- Group Insurance
- Group Pensions

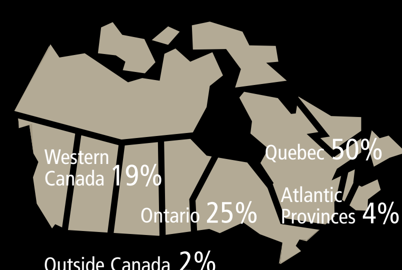
[1] Excludes general insurance premiums.

Over the last few years, new activities have been added to Industrial Alliance's core activities in order to enhance the range of products and services offered by the Company: auto and home insurance, mutual funds, securities and trust services. These new activities are conducted by Industrial Alliance's subsidiary companies, the profitability of which is recorded as part of Industrial Alliance's income on capital.

Geographic Distribution of Activities

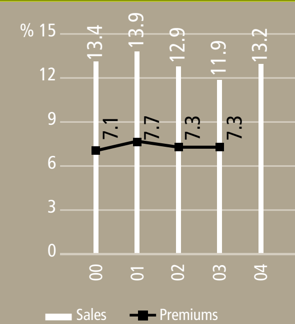
From a geographic standpoint, Industrial Alliance conducts its activities mainly in Canada. Approximately half of its business comes from Quebec. Over the last few years however, the proportion of business generated from outside Quebec has grown significantly, in line with the Company's plans to expand its activities geographically and establish its presence right across the country.

2004 Premiums



The following pages describe our main sectors of activity based on the following key concepts: products, distribution networks, geographic distribution, market position and success factors.

Individual Insurance[1]

Relative Importance of the Sector			Growth of the Sector			Market Share
	Value in 2004	Proportion of Company total		Sales[1] 2004 vs. 2003	Sales[1] 5-year CAGR[2]	
Premiums	$763.1 million	27%	IAG[3]	8.7%	4.1%	
Net income	$73.5 million	47%	Industry	(0.6%)	2.8%	

[1] Individual Insurance sales (new business) are defined as first-year annualized premiums. Data on Company market shares and industry data was obtained from LIMRA.
[2] Compound annual growth rate.
[3] Excluding business from the Canadian Medical Association (CMA) in 2000 and 2001.

Through its Individual Insurance sector, Industrial Alliance offers a complete range of life insurance products (universal, permanent and term), health and disability insurance, critical illness and mortgage insurance products.

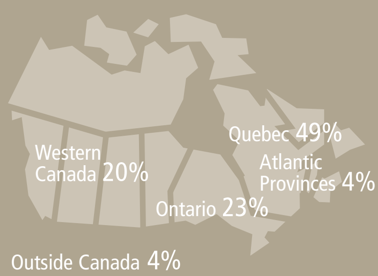
These products are designed to satisfy all the insurance and financial security needs of the population in each market segment, from moderate-income families, to middle and high-income families.

Individual insurance products are distributed through a multi-channel distribution network that includes dedicated agents (Career Agents network), insurance brokers (General Agents network) and securities brokers (National Accounts network). The scope of these networks and the quality of their representatives constitute Industrial Alliance's main strength and are the cornerstone of the Company's success in the personal financial services market.

Individual life insurance products have been marketed across Canada for a number of years through the Industrial Alliance Group's three life insurance companies: Industrial Alliance, Industrial Alliance *Pacific* and National Life. In September 2004, Industrial Alliance announced the combination of the distribution activities of its National Life subsidiary with the already largely integrated operations of Industrial Alliance and Industrial Alliance *Pacific*. The combination, which went through on January 1, 2005, allowed the reorganization of the Group's distribution structure according to network rather than company. The combination is aimed at streamlining the structure of the Company's distribution network and further strengthening its competitive position. (For more information on the integration of National Life's activities, please refer to the *Management's Discussion and Analysis* section of this annual report.)

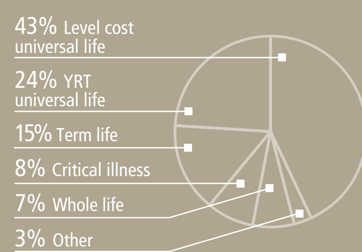
Diversification of the Sector

Breakdown by region (2004 premiums)



Breakdown by network (2004 sales)

Breakdown by product (2004 sales)



Market Position

Industrial Alliance is an industry leader in the Canadian individual insurance market. For several years, the Company's market share in individual insurance sales has been superior to 10%. In 2004, Industrial Alliance's market share was 13.2%, which ranks the Company third in Canada.

Success Factors

We owe our success to a strategy that rests on the following elements:

- The scope and diversity of our distribution networks
- Our ability to efficiently manage and grow these networks
- Our wide range of products
- Our ability to innovate
- The quality of the service provided by our representatives and employees

Individual Annuities[1]

Relative Importance of the Sector			Growth of the Sector					
			Sales[1]			Assets		
	Value in 2004	Proportion of Company total		2004 vs. 2003	5-year CAGR[2]		2004 vs. 2003	5-year CAGR[2]
Premiums	$906.8 million	33%	IAG – Total[3]	37.6%	13.7%	IAG – Total[3]	12.0%	4.3%
						IAG – Segregated funds	18.7%	8.6%
Net Income	$33.3 million	21%	Industry[4]	27.5%	1.5%	Industry[4]	13.3%	5.0%

[1] Individual Annuity sales (new business) are defined as accounting premiums. Data on Company market shares and industry data was obtained from the IFIC and Investor Economics.
[2] Compound annual growth rate.
[3] General and segregated funds.
[4] Mutual fund industry.

In the Individual Annuities sector, the Company markets two large families of products: savings products and retirement products.

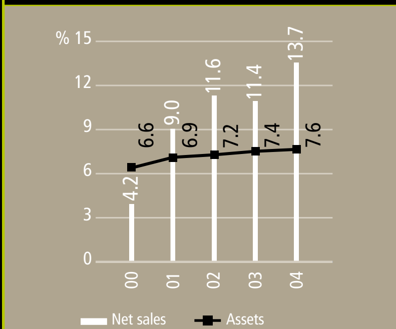
Savings products mainly include registered retirement savings plans (RRSP), non-registered retirement savings plans (RSP), registered education savings plans (RESP) and locked-in retirement accounts (LIRA). Retirement products mainly include registered retirement income funds (RRIF), life income funds (LIF), life annuities and fixed-term annuities. All of these products are designed to help individuals and their families, regardless of their income, to ensure their financial independence or turn special projects into reality.

In terms of savings products, the Company offers investments in a broad range of vehicles: guaranteed investment certificates, a large family of segregated funds, mutual funds and securities.

Products in the Individual Annuities sector are mainly distributed through the Company's two largest distribution networks: dedicated agents (Career Agents network) and insurance brokers (General Agents network). The scope of these networks and the quality of their representatives constitute Industrial Alliance's main strength and are the cornerstone of the Company's success in the personal financial services market.

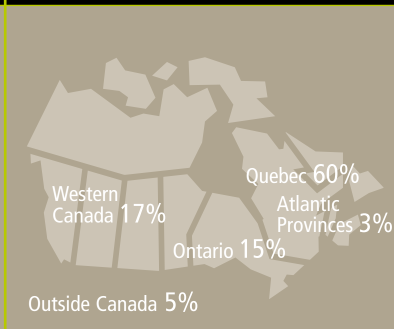
Individual annuity products have been marketed across Canada for a number of years through the Industrial Alliance Group's three life insurance companies: Industrial Alliance, Industrial Alliance *Pacific* and National Life. In September 2004, Industrial Alliance announced the combination of the distribution activities of its National Life subsidiary with the already largely integrated operations of Industrial Alliance and Industrial Alliance *Pacific*. The combination, which went through on January 1, 2005, allowed the reorganization of the Group's distribution structure according to network rather than company. The combination is aimed at streamlining the structure of the Company's distribution network and further strengthening its competitive position. (For more information on the integration of National Life's activities, please refer to the *Management's Discussion and Analysis* section of this annual report.)

Market Share – Segregated Funds

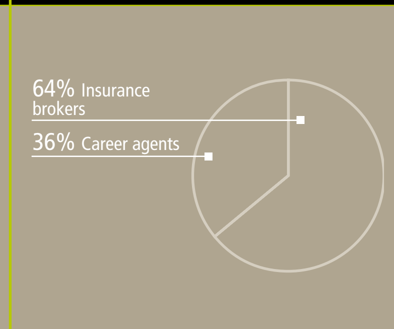


Diversification of the Sector

Breakdown by region (2004 funds)



Breakdown by network (2004 sales)



In the last few years, the Company has decided to enter two new markets that are part of what is commonly known as the "wealth management" sector, these being the mutual fund market and the securities market. The Company's activities in these markets are conducted through subsidiary companies. Development in the wealth management sector has been ensured through organic growth but also through acquisitions. Since 2000, Industrial Alliance has acquired nine companies or their assets in the wealth management sector, including two mutual funds manufacturers, three mutual fund brokers and four securities brokers.

The acquisitions made over the last few years have also allowed the addition of new distribution networks to Industrial Alliance's traditional networks. In addition to its representatives in the career agent and general agent networks, the Company can now also rely on:

- Over 1,500 mutual fund representatives (many of whom are career agents and insurance brokers with a mutual fund license)
- More than 100 securities brokers
- Some 500 representatives in the Laurentian Bank distribution network and with whom the Company recently signed an exclusive 10-year distribution agreement for the sale of Industrial Alliance's mutual funds

The addition of these new networks places Industrial Alliance in an enviable position in order to take advantage of the convergence in distribution that is currently taking place in the industry. (For more information on the Company's wealth management development strategy, please refer to the *Management's Discussion and Analysis* section of this annual report.)

Market Position

Industrial Alliance is an industry leader in the Canadian individual annuities market, particularly in the area of segregated funds. The Company's market share for net segregated fund sales has continued to grow over the last five years, increasing from 4.2% in 2000 to 13.7% in 2004. Industrial Alliance ranks fourth in Canada in terms of net segregated fund sales.

Success Factors

The Company's success in the Individual Annuities sector is principally due to the following factors:

- The scope and diversity of our distribution networks
- Our innovative and diversified product line
- The excellent performance of our different investment funds (72% of our segregated fund assets generated above-median one-year gross returns)

Group Insurance[1]

Relative Importance of the Sector

	Value in 2004	Proportion of Company total
Premiums	$637.9 million	23%
Net income	$33.6 million	22%

Growth of the Sector

Sales[1] – Employee plans		2004 vs. 2003	5-year CAGR[2]
Total	IAG	4.5%	8.0%
Total	Industry	7.2%	6.6%
Target market – 50 to 1,000 employees	IAG	17.3%	3.9%
Target market – 50 to 1,000 employees	Industry	5.8%	3.2%

Sales[1] – IAG niche markets	2004 vs. 2003	5-year CAGR[2]
Creditor insurance	1.9%	7.9%
Special markets group (SMG)	11.5%	28.0%

[1] Group Insurance sales (new business) are defined as follows: for Employee plans, first-year annualized premiums, including administrative services only (ASO) contracts; for creditor insurance, gross premiums before reinsurance (single premiums); for special markets, accounting premiums. Data on industry growth was obtained from LIMRA. Data on Company and industry market shares was obtained from Fraser for 2000 to 2003 and from LIMRA for 2004.

[2] Compound annual growth rate.

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

Employee Plans – The Group Insurance Employee Plans sector offers a complete range of insurance products including life, accident, accidental death and dismemberment, health (including medical expenses), dental, short and long-term disability, critical illness and home care, medical assistance outside Canada and other group insurance products.

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

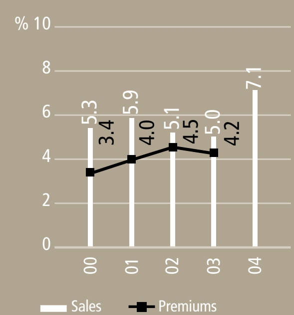
The products in this sector are distributed mainly through two distribution networks: the Specialized brokers network and the Actuarial consulting firms network. Representatives in these networks work in partnership with Company sales and service teams that conduct activities from six cities: Halifax, Quebec City, Montreal, Toronto, Calgary and Vancouver.

Since January 1, 2004, the Company has distributed its group insurance employee plan products under a single brand, that of Industrial Alliance.

Creditor Insurance – The Group Creditor Insurance sector markets insurance products (life, disability and critical illness) to automobile dealers and other recreational vehicle dealers. These products are distributed by a division of Industrial Alliance *Pacific* through an exclusive Canada-wide direct distribution network from offices in Vancouver, Edmonton, Winnipeg, Toronto, Montreal and Halifax.

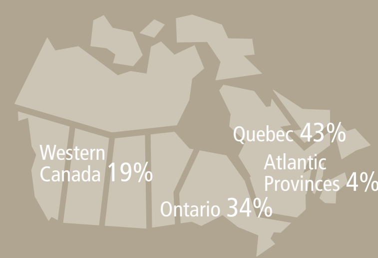
Market Share – Employee Plans

Target market – 50 to 1,000 employees

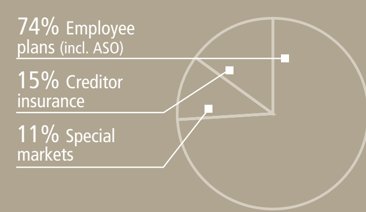


Diversification of the Sector

Breakdown by region (2004 premiums)



Breakdown by segment (2004 premiums)



The Group Creditor Insurance sector also markets other types of creditor insurance products to financial institutions through Industrial Alliance, the parent company.

Special Markets Group (SMG) – The Special Markets Group sector is a division of Industrial Alliance *Pacific* that specializes in certain group insurance niche market segments. SMG primarily offers accidental death and dismemberment (AD&D) insurance to employers and associations, travel and health insurance, student health insurance, student accident insurance to school boards, and term life insurance to alumni associations and other affinity groups. SMG distributes its products mainly through brokers and distribution partners from four regional sales offices located in Vancouver, Calgary, Toronto, and Montreal that are staffed by their own personnel.

Market Position

In the group insurance employee plans market, Industrial Alliance ranks seventh in Canada in terms of sales with a 3.6% market share. However, in its target market of medium-sized groups of 50 to 1,000 employees, Industrial Alliance ranks sixth in Canada in terms of sales with a 7.1% market share.

In the automobile dealer creditor insurance market, Industrial Alliance is the Canadian leader with a market share of over 40%.

There is no industry data for special market groups. In this market, Industrial Alliance is concentrating its efforts on several niche market segments whose needs are not well served by traditional group insurance product carriers. The Company is targeting markets with growth potential and in which distributors could see Industrial Alliance as an additional choice.

Success Factors

The key factors for success in the employee plans group insurance market are as follows:

- Building solid ties with key distributors
- Offering clients flexible and innovative business solutions
- Disposing of state-of-the-art technology
- Offering above-average service at a competitive price

In the creditor insurance market segment, the Company is reaping the benefits of its expertise in specialized products and in being the only company in Canada to have an exclusive cross-country direct distribution network.

Group Pensions[1]

Relative Importance of the Sector			Growth of the Sector				
	Value in 2004	Proportion of Company total			IAG 2004 vs. 2003	IAG 5-year CAGR[2]	Industry 5-year CAGR[2]
Premiums	$461.1 million	17%	Sales[1]	Savings	39.5%[3]	31.1%	7.8%
			Sales[1]	Annuities	(9.2%)	(4.8%)	(7.5%)
Net Income	$14.7 million	10%	Assets	Savings	17.8%	17.1%	8.9%
			Assets	Annuities	1.6%	4.3%	(0.9%)

[1] Group Pensions sales (new business) are defined as accounting premiums. Data on Company market shares and industry data was obtained from the CLHIA.
[2] Compound annual growth rate (1998-2003 for the industry).
[3] Excluding the transfer from National Bank Trust in 2003.

The Group Pensions sector offers specialized products and services that are adapted to the needs of pension plan members. These products and services are divided into two main categories: accumulation products, i.e., retirement savings products, and annuity products.

The accumulation products market can be further subdivided into two large categories: full service products and investment only products.

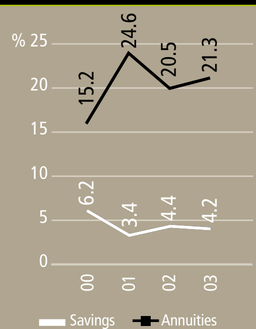
- In the area of full service products, Industrial Alliance offers a wide range of products, including defined contribution plans, defined benefit plans and supplemental pension plans. The Company can ensure both the administration of pension plans as well as the management of funds. Plan members have access to a vast selection of investment options and services.
- In the area of investment only products, Industrial Alliance offers institutional fund management services as well as asset immunization services.

Annuity products include a variety of insured annuities that are tailored to market needs.

This sector is particularly active in the medium-sized business market (100 to 1,000 employees) but also administers the plans of many large companies.

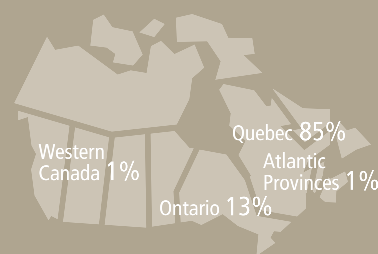
The products in this sector are distributed through four distribution networks: actuarial consulting firms, specialized pension brokers, specialized group insurance brokers who wish to develop their business potential in the pensions market, and brokers and agents who already distribute the Company's insurance and annuity products.

Market Share – Sales (Premiums)[4]

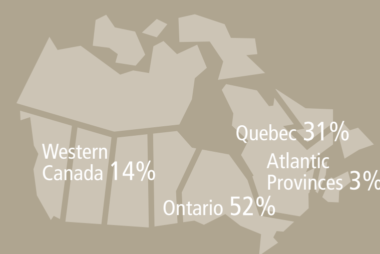


Diversification of the Sector

Breakdown by region – Savings (2004 funds: $2.1 billion)



Breakdown by region – Annuities (2004 funds: $1.9 billion)



[4] 2004 data unavailable.

Our sales teams assist the various networks from offices in Halifax, Quebec City, Montreal, Toronto, Calgary and Vancouver.

Industrial Alliance distributes its group pensions products across Canada under a single brand name, that of Industrial Alliance.

Market Position

In 2004, Industrial Alliance put in place what could become the cornerstone of its future development: a Canada-wide sales team.

In the area of accumulation products (savings products), Industrial Alliance has achieved strong growth over the last five years, with premiums increasing at an average annual compound rate of 31%. The Company's Canadian market share in the accumulation products market is 4.2% (based on 2003 premiums). Industrial Alliance intends to continue placing emphasis on the accumulation products market over the next few years. The Company's acquisition of BLC-Edmond de Rothschild Asset Management in the institutional investment market consolidates Industrial Alliance's position by increasing its business volume in this market segment.

In the annuity products market, Industrial Alliance ranks among Canada's industry leaders in terms of new business underwriting. The Company successfully underwrote just over 20% of all new plans that were registered on the market in 2004.

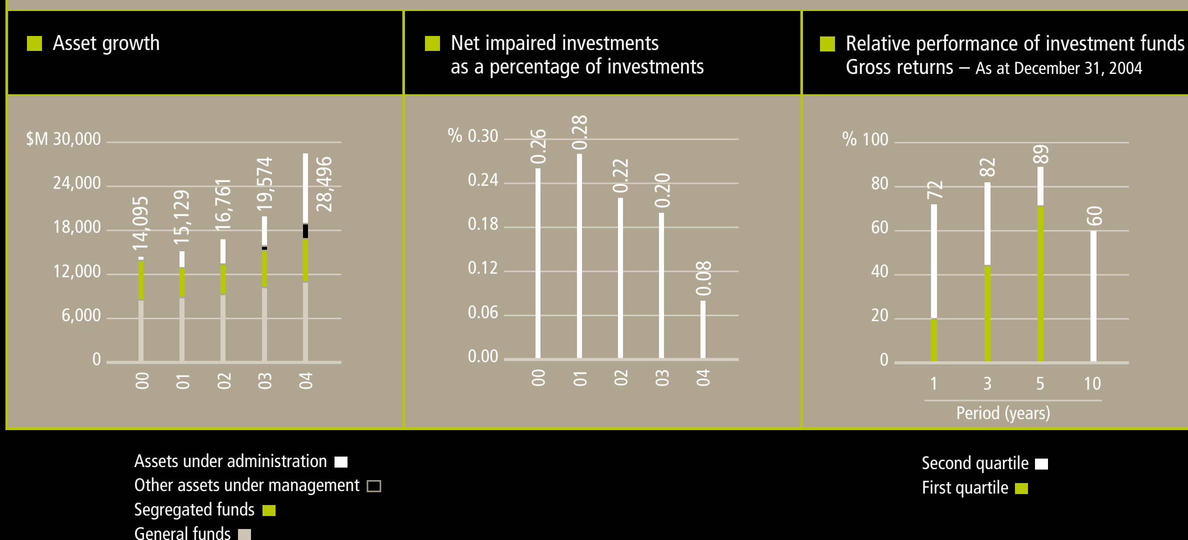
Success Factors

The main advantages that Industrial Alliance is counting on to succeed in the group pensions market are:

- Diversified choice and innovative solutions
- Canada-wide team
- Personalized service at competitive rates
- Competent, experienced and stable administrative units

Investments

Growth, Quality and Performance of Investments



The Company's investment activities are divided into three sectors:

- The General Fund Investments sector. This sector is in charge of managing bonds, stocks, derivative products and short-term investments, asset-liability matching and establishing interest rates for products offered by the Company.
- The Mortgage Loans sector. This sector is in charge of underwriting and managing residential and commercial mortgage loans.
- The Real Estate Investments sector. This sector is in charge of the development and management of the Company's real estate holdings.

In 2004, the Industrial Alliance Group's portfolio management team, i.e., the team in charge of managing our investment funds, was regrouped under a new legal entity: Industrial Alliance Investment Management Inc. The creation of this new entity and its registration with the various regulatory authorities will allow our internal management team to offer their services to all Industrial Alliance Group companies.

Investment operations are combined under a common leadership for the Industrial Alliance Group. However, investment managers work out of three cities: Quebec City, Toronto and Vancouver.

Funds Under Management and Administration

Industrial Alliance's assets under management and administration reached $28.5 billion as at December 31, 2004, up 46% during the year.

General Funds

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 asset and liability financial structures in order to protect the Company against risks associated with interest rate and market value fluctuations.

The Company is known for the overall quality of its investment portfolio. Net impaired investments represented just 0.08% of total investments as at December 31, 2004.

Investment Funds

Industrial Alliance offers a wide variety of investment funds designed for clients in both the individual and group sector. As at December 31, 2004, the Individual Annuities family of funds offering counted 43 funds and the Group Pensions family of funds offering counted 50 funds.

The Company's investment fund assets totalled $5.4 billion as at December 31, 2004. Our internal fund management team oversaw the management of 72% of investment fund assets. The expertise of our in-house team is concentrated on fixed-income securities and Canadian equity. Industrial Alliance has strategic alliances with some 20 external managers who were responsible for managing 28% of the Company's investment fund assets.

The performance of Industrial Alliance funds was excellent in 2004. In fact, 72% of net investment fund assets generated above-median one-year gross returns.

Management's Discussion and Analysis

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Executive Summary

Profitability: including restructuring charge for the integration of National Life

- Record net income of $155.1 million, up 13%
- Diluted EPS of $3.89, up by $0.42
- ROE of 13.6%, within the 13% to 15% target range
- Includes $6.1 million after-tax restructuring charge for the integration of National Life

Profitability: excluding restructuring charge for the integration of National Life

- Net income of $161.2 million, up 18%
- Diluted EPS of $4.05, up by $0.58
- ROE of 14.1%, within the 13% to 15% target range

2004 was an excellent year for the whole Company. Industrial Alliance once again proved that it is a sizeable player in the market, and that it can gain market share even in a demanding, competitive environment. It also proved that it can deliver on its commitments to the financial community. In terms of profitability, for example, the Company was able to increase its earnings per share by more than 10% and obtain a return on equity that is within its 13% to 15% target range. In terms of business growth, it achieved its sales growth objective of five percentage points above the industry in the Individual Insurance and Annuities sectors, as well as in its target market of mid-sized companies in the Group Insurance Employee Plans sector.

Profitability

After four straight solid quarters, shareholder net income reached $155.1 million in 2004, another new record for the Company. This income is 13% higher than the restated profit for 2003[1], representing diluted earnings per share of $3.89 and return on common shareholders' equity of 13.6%.

2004 profits include a $6.1 million after-tax restructuring charge for the integration of National Life[2], one of the Company's life and health insurance subsidiaries. Excluding this charge, adjusted net income for 2004 was $161.2 million, 18% higher than the restated profit for 2003. This translates into diluted earnings per share of $4.05, an increase of $0.58 compared to the previous year, and return on equity of 14.1% (13.9% in 2003). This return is within the Company's 13% to 15% target range.

PROFITABILITY

(Millions of dollars, unless otherwise indicated)	2003[3]	2004	Variation
Net income to shareholders	136.9	155.1	13%
Restructuring charge for the integration of National Life	–	6.1	–
Net income to shareholders, adjusted	136.9	161.2	18%
Diluted earnings per share	$3.47	$3.89	$0.42
Diluted earnings per share, adjusted	$3.47	$4.05	$0.58
Return on shareholders' equity	13.9%	13.6%	–
Return on shareholders' equity, adjusted	13.9%	14.1%	–

1 The 2003 results were restated after the Company realized that the amount that could be transferred from the participating policyholders' account to the retained earnings account, pursuant to the *Insurance Companies Act*, had been understated each year since 1981 due to an incorrect application of the calculation method.

2 The restructuring charge results from the Company's decision, announced on December 1, 2004, to integrate the operations of its National Life subsidiary into those of the parent company.

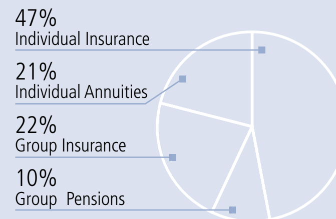
3 Restated.

Below are a few comments on profitability in 2004.

- Profits for the year were excellent for all lines of business, but particularly for the Group Insurance sector, which had high experience gains all year long. Individual Annuities had another good year as well, owing to strong stock market performances. Results for the Individual Insurance and Group Pensions sectors were in line with expectations.
- Another positive aspect of 2004 was the excellent performance of the Company's auto and home insurance subsidiary, which ended the year with net income of $5.1 million ($2.9 million in 2003). Profits from this subsidiary increased the Company's income on capital, which is distributed across the Company's four lines of business.
- Each business line’s contribution to 2004 net income was as follows: Individual Insurance: 47%; Individual Annuities: 21%, Group Insurance: 22%; and Group Pensions: 10%.
- The Company decided to strengthen its policy reserves by $3.7 million (before taxes) in the fourth quarter of 2004 as part of its usual year-end assumption update. The reserves were strengthened for three lines of business: Individual Insurance (the main assumptions modified were higher lapse rates at renewal on term products, improvement in mortality rates and lower interest rates); Individual Annuities (the valuation method for special GICs was refined); and Group Insurance (various minor adjustments were made to the reserves affecting various benefits).
- The 2004 net profits were achieved in spite of a $13.0 million increase in new business strain for the year compared to 2003. This increase is the result of strong sales in 2004. New business strain puts downward pressure on profits, but is a latent benefit that will be realized on the income statement in future years if the pricing assumptions materialize.
- 2003 profits were restated to take into account the transfer of $53.5 million from National Life's participating policyholders' account to the retained earnings account. This transfer was carried out on December 1, 2004. Following the restatement of the financial statements, shareholder net income increased by $1.9 million in 2003, diluted earnings per share increased by $0.05 and return on common shareholders' equity decreased by 0.4%.
- The effective tax rate was 31% in 2004, excluding the National Life restructuring charge. Management expects this rate to remain at around 30% to 31% in the near term.

CONTRIBUTION OF THE BUSINESS LINES TO ADJUSTED NET INCOME

2004

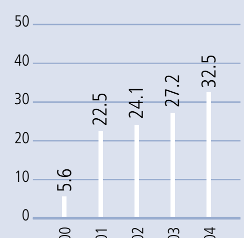


Declaration of Dividend

The Company paid out dividends to common shareholders totalling $32.5 million in 2004 ($27.2 million in 2003). The Company currently pays a quarterly dividend of $0.22 per common share, which corresponds to a dividend payout ratio of approximately 22%. The Company is aiming to achieve a dividend payout ratio of around 25% over the next 12 to 15 months, in the middle of its target range of 20% to 30% of sustained earnings.

DIVIDEND PAID TO COMMON SHAREHOLDERS

$Million



Business Growth

In terms of business growth, all lines of business ended the year with higher sales than the previous year on a comparable basis, owing to favourable results almost every quarter.

Thanks to strong sales growth and good business persistency, total premiums approached the $3 billion mark in 2004, ending the year at $2.9 billion. This represents a 20% increase for the year, excluding the special transfer from National Bank Trust in 2003, and an 11% increase including the transfer.

Assets under management and under administration grew substantially in 2004, reaching $28.5 billion as at December 31, 2004. This is a 46% increase for the year. The main factors that helped spur asset growth throughout the year include the purchase of BLC-Edmond the Rothschild Asset Management Inc. ($1.8 billion in assets), the acquisition of a majority interest in FundEX Investments Inc. ($4.3 billion), strong growth in premium income, favourable stock market performances, and the solid growth of our wealth management subsidiaries, including Investia Financial Services Inc. and Industrial Alliance Securities Inc., where assets grew by around $450 million each in 2004.

Business Growth

- $2.9 billion in premiums, up 20% excluding NBT (up 11% including NBT)
- $28.5 billion in assets, up 46%

BUSINESS GROWTH

(Millions of dollars, unless otherwise indicated)	2003	2004	Variation
Insurance and annuity premiums	2,566.7	2,852.4	11%
Excluding NBT transfer in 2003 [1]	2,379.3	2,852.4	20%
Assets under management and under administration			
Assets under management	15,443.9	18,854.6	22%
Assets under administration	4,129.6	9,641.1	133%
Total	19,573.5	28,495.7	46%
Sales [2]			
Individual Insurance	128.7	139.9	9%
Individual Annuities	658.7	906.8	38%
Group Insurance			
Employee Plans	53.3	55.7	5%
Creditor Insurance	130.1	132.6	2%
Special Markets Group (SMG)	71.5	79.7	11%
Group Pensions	556.4	461.1	(17%)
Excluding NBT transfer in 2003	368.9	461.1	25%

Below are some of the sales highlights for 2004.

- Individual Insurance – Individual Insurance had an exceptional year in 2004, with sales for this line of business reaching $139.9 million for the year, the highest sales ever achieved by the Company, and an increase of 9% over 2003. This is higher than industry growth, which recorded a 1% decrease in sales in 2004, enabling this sector to surpass the Company's sales objective of "industry growth plus five percent". Sales are primarily up for the National Accounts network and for our main product, the Universal Life policy, for which the Company is the leader in Canada. With these sales results, the Company was able to improve its ranking to third in Canada in individual life insurance sales, with a market share of 13.2% (ranked fourth in 2003, with 11.9% of the market).

- Individual Annuities – An extremely successful RRSP campaign set the tone for an outstanding year in this sector, with new deposits totalling $906.8 million in 2004, a 38% increase over the previous year. 2004 sales were up for both of the Company's distribution networks and for all product categories, but particularly for segregated funds, which grew by 55% in 2004, a clear sign that investors have not lost confidence in the equity markets. This growth is higher than the mutual fund industry, where sales grew by 28% in 2004. Net segregated fund sales were positive once again, totalling $332.7 million for 2004. As a result, the Company was ranked fourth in Canada, with a market share of 13.7% (11.4% in 2003).

- Group Insurance Employee Plans – The Group Insurance Employee Plans sector continued to grow in 2004, with sales totalling $55.7 million, an increase of 5% over 2003. While this growth rate is comparable to industry growth (+7%), Company sales for our target group of companies having 50 to 1,000 employees were 17% higher than the previous year, compared to 6% higher for the industry. We were ranked sixth in Canada in our target market, with a market share of 7.1%.

- Group Creditor Insurance – Despite a drop in car sales in Canada, the Creditor Insurance sector managed to end the year with $132.6 million in sales, an increase of 2% over 2003. The Company is the leader in Canada in the group creditor insurance market among automobile dealers, with over 40% of the market.

Individual Insurance

- Sales up by 9% (down 1% for the industry)
- Objective of "industry growth + 5%" achieved
- Ranked 3rd in Canada with 13.2% of the market (4th in 2003 with 11.9% of the market)
- Number one in Universal Life insurance

Individual Annuities

- Sales up by 38%
- Positive net segregated fund sales: 4th in Canada with 13.7% of the market (4th in 2003 with 11.4% of the market)

Group Insurance Employee Plans

- Sales up by 5%
- Sales up by 17% in our target market of groups with 50 to 1,000 employees (ranked 6th in Canada, with 7.1% of the market)

Group Creditor Insurance

- Primary market: car dealers
- Sales up by 2% despite a drop in car sales
- Number one in Canada, with over 40% of the market

1 In the first quarter of 2003, the Group Pensions sector received a special one-time transfer of $187.5 million under a strategic agreement with National Bank Trust (NBT).

2 Sales are defined as follows for each sector: Individual Insurance and Group Insurance Employee Plans: first year annualized premiums; Individual Annuities, Group Pensions and Special Markets Group (SMG): accounting premiums; Group Creditor Insurance: gross premiums (accounting premiums before reinsurance).

- Group Insurance: Special Markets Group – Special Markets Group (SMG) continues to take advantage of past years' strong sales, with premiums growing 11% in 2004 to end the year at $79.7 million. SMG specializes in certain niche group insurance markets that are not well served by traditional group insurance providers.
- Group Pensions – Sales for the Group Pensions sector totalled $461.1 million in 2004, 17% lower than in 2003. This decrease can be explained by the special transfer from National Bank Trust in 2003. Without this transfer, 2004 sales would have been 25% higher than the previous year. Over the last five years, Industrial Alliance has recorded average annual growth of 16% in this sector for our core business.
- Added value of sales – Strong sales growth caused the added value of sales to increase 20% in 2004, to reach $63.8 million ($1.60 per share). This increase is primarily due to strong sales growth in the Individual Annuities sector.

Main Achievements in 2004

A number of initiatives were carried out in 2004 that will strengthen the competitive position of Industrial Alliance even further in the coming years. Some of the main initiatives include:

- the Company's decision to combine the activities of its National Life subsidiary with its own;
- the purchase of BLC-Edmond de Rothschild Asset Management Inc., a fund manager;
- the signing of a 10-year exclusive distribution agreement with Laurentian Bank for the sale of Industrial Alliance mutual funds;
- the acquisition of a majority interest in FundEX Investments Inc., a mutual fund brokerage firm;
- the purchase of Lynch Investments Inc., a securities brokerage firm;
- the transfer of $53.5 million from the participating policyholders' account to the retained earnings account; and
- the continued pursuit of its development strategy outside Quebec for the Group Insurance and Group Pensions sectors.

All of these initiatives are explained in more detail in this *Management's Discussion & Analysis*. They are all part of a bigger strategy whose objectives are: to improve efficiency, to develop the wealth management sector, and to continue our geographic diversification.

Guidance for 2005

The Company announced some of the key objectives it will be pursuing in 2005:

- In terms of return on common shareholders' equity, the Company is maintaining its return objective of 13% to 15%. This objective translates into an increase in earnings per share of 10% to 12%.
- In terms of the dividend, as mentioned earlier, the Company is aiming to achieve a dividend payout ratio of around 25% over the next 12 to 15 months, in the middle of its target range of 20% to 30% of sustained earnings. The Company currently pays a quarterly dividend of $0.22 per common share, which corresponds to a payout ratio of approximately 22%.
- In terms of business growth, despite an excellent year for sales in 2004, the Company is confident enough in its strategy to renew its goal of increasing sales by five percentage points more than the industry.
- In terms of solvency, the Company will continue to aim for a solvency ratio that is within the 175% to 200% range.

Group Insurance: Special Markets Group

- Primary market: niche markets that are not well served by traditional insurance providers
- Sales up by 11%

Group Pensions

- Sales up by 25% excluding NBT (down 17% including NBT)

Main Achievements in 2004

- Integration of National Life
- Purchase of BLC-Edmond de Rothschild Asset Management Inc.
- Signing of a 10-year exclusive distribution agreement with Laurentian Bank for the sale of Industrial Alliance's mutual funds
- Acquisition of a majority interest in FundEX Investments Inc.
- Purchase of Lynch Investments Inc.
- Transfer from the participating policyholders' account to the retained earnings account
- Continued development outside Quebec for group sectors

Guidance for 2005

- Return on equity of 13% to 15%
- 10% to 12% growth in earnings per share
- Increase of dividend payout ratio to 25% over the next 12 to 15 months
- Sales growth of 5 percentage points above the industry
- Solvency ratio between 175% and 200%

Wealth Management Strategy

- Assets in 2000: none
- Assets in 2004: $8.5 billion

Update on Wealth Management Sector Strategy

The Company's wealth management sector strategy continued in full force in 2004, both through acquisitions and organically.

In terms of acquisitions, one of the most significant events of the year was the November 4 announcement of the acquisition of BLC-Edmond de Rothschild Asset Management Inc. (BLCER). As at December 31, 2004, BLCER managed $1.8 billion in assets, which is made up of $911 million in mutual funds, $147 million in private wealth and $725 million in institutional money. This acquisition enabled Industrial Alliance to expand its family of funds and obtain immediate scale in this sector. It also gave the Company access to a new distribution network thanks to a 10-year exclusive distribution agreement with Laurentian Bank. The transaction closed successfully on December 31, 2004.

The Company also increased its interest in FundEX Investments Inc. during the year from 25% to 83.5%. FundEX is a mutual fund brokerage firm based in Ontario. As at December 31, 2004, FundEX administered $4.3 billion in assets.

In addition, the Company's securities subsidiary, Industrial Alliance Securities Inc. (IAS), acquired Lynch Investments Inc., a full-service securities brokerage firm based in Nova Scotia. At the time of the purchase, Lynch had some $70 million in assets under administration. This acquisition enabled IAS to receive the necessary approvals to be registered nationwide. The transaction closed on June 30, 2004, and Lynch was then merged with IAS.

While four years ago the Company had no operations in the wealth management sector, today it has subsidiaries in several segments of this market, including mutual funds (as a manufacturer and distributor), securities, private wealth management and institutional money management. The Company currently has $8.5 billion in assets under administration and management in these segments.

Integration of National Life: impact on earnings per share

- Nil in 2005
- $0.05 increase in 2006
- $0.17 increase per year, starting in 2007

Integration of National Life

The integration of National Life is proceeding as planned. Total restructuring costs are estimated at $12.5 million (after taxes), of which $6.1 million was recognized in the fourth quarter of 2004. In operational terms, the integration will be carried out in 2005 and 2006. The Company estimates that the shareholder net income resulting from the integration will be increased by $0.17 per share, per year, starting in 2007, once the integration is complete. For 2005, this integration will have a neutral impact on profitability; for 2006, earnings per share should increase by $0.05.

Changes to the capital structure

- Conversion of preferred shares into common shares
- Redemption of the Series 1 and Series 3 Subordinated Debentures
- Issuance of new subordinated debentures
- Transfer from the participating policyholders' account to the retained earnings account

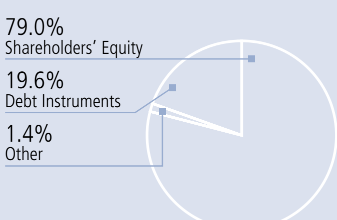
Capitalization

The Company continued to restructure its capital in 2004. The main changes to affect the Company's capital structure were as follows: the conversion of $18.75 million in preferred shares to common shares (the second and last block of preferred shares held by the Caisse de dépôt et placement du Québec); the redemption of $60 million in Series 1 Subordinated Debentures; the redemption of $75 million in Series 3 Subordinated Debentures; the issue of $150 million in new subordinated debentures; and the transfer of $53.5 million from the participating policyholders' account to the retained earnings account.

Over the past two years, the Company has redeemed all of its subordinated debentures ($185 million in total), converted all of its preferred shares ($75 million) and issued $150 million in innovative tier 1 capital and $150 million in new subordinated debentures. At the end of 2004, shareholders' equity accounted for 79.0% of the Company's capital.

DISTRIBUTION OF CAPITAL

2004



Solvency

- Solvency ratio of 222%, which exceeds the Company's target range of 175% to 200%

Solvency

The solvency ratio was 222% as at December 31, 2004, 1 percentage point higher than at the end of 2003. This ratio is well above both the regulatory authority requirements and the Company's objective, which is to maintain a ratio of between 175% and 200%.

This excess capital offers the Company a great deal of financial flexibility. The Company's priorities with respect to the use of excess capital are as follows: financing organic business growth; financing acquisitions, if opportunities arise; increasing the dividend; and buying back common shares.

Note that in the fourth quarter, the Autorité des marchés financiers (AMF) modified the requirements regarding the treatment of negative reserves. These modifications, which had no impact on the Company's solvency ratio, led to a shift of capital from tier 2 (temporary capital) to tier 1 (permanent capital), thus improving the quality of the Company's capital. AMF is the regulatory body that governs the Company's activities.

Quality of Investments

The overall quality of investments remains excellent, and even improved on many accounts in 2004. This improvement was primarily due to the disposition of a defaulted bond and the settlement of three defaulted mortgage loans, one of which represented approximately 50% of the mortgage arrears. Almost all of the investment quality indices improved in 2004:

- Gross impaired investments decreased from $60.5 million as at December 31, 2003 ($19.8 million net of provisions) to $47.6 million as at December 31, 2004 ($8.5 million net of provisions). Net impaired investments represented only 0.08% of total investments as at December 31, 2004, compared to 0.20% as at December 31, 2003. Moreover, 82.0% of gross impaired investments were provisioned as at December 31, 2004 (67.3% as at December 31, 2003).
- The bond portfolio had no new bonds in default, and the delinquency rate was 0.02% of the portfolio as at December 31, 2004. The proportion of bonds rated BB or lower, however, increased from 0.13% of the bond portfolio as at December 31, 2003 to 0.24% as at December 31, 2004. Note that bonds rated BB or lower represent only $14.3 million of a bond portfolio totalling $6.1 billion.
- The delinquency rate of the mortgage loan portfolio decreased considerably in 2004, dropping from 0.86% of the portfolio as at December 31, 2003 to 0.32% as at December 31, 2004.
- The occupancy rate of the Company's real estate holdings, which was already excellent, improved in 2004, increasing from 93.9% as at December 31, 2003 to 95.2% as at December 31, 2004.

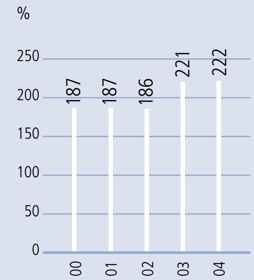
QUALITY OF INVESTMENTS

(Millions of dollars, unless otherwise indicated)	December 31, 2003	December 31, 2004
Overall quality indices		
Gross impaired investments	60.5	47.6
Provisions for losses	40.7	39.1
Net impaired investments	19.8	8.5
Net impaired investments as a % of total investments	0.20%	0.08%
Provisions as a % of gross impaired investments	67.3%	82.0%
Bonds – Value of the portfolio	5,527.9	6,074.5
Rated BB and lower	0.13%	0.24%
Delinquency rate	0.03%	0.02%
Mortgage loans – Value of the portfolio	2,490.4	2,491.8
Delinquency rate	0.86%	0.32%
Proportion of impaired loans that are insured	42.2%	81.0%
Stocks and market indices – Value of the portfolio	930.3	1,081.1
Market/book value ratio	102.9%	104.6%
Real estate – Value of the portfolio	425.7	444.5
Market/book value ratio	104.9%	108.6%
Occupancy rate	93.9%	95.2%

Priorities for the use of excess capital

- Financing organic business growth
- Financing acquisitions
- Increasing the dividend
- Buying back common shares

SOLVENCY RATIO (MCCSR)



MCCSR: Minimum Continuing Capital and Surplus Requirements

Quality of Investments

- Net impaired investments: 0.08% of investments
- Provisioned impaired investments: 82.0%
- No new bonds in default in 2004
- Delinquency rate of mortgage portfolio: 0.32%
- Real estate occupancy rate: 95.2%

Non-GAAP Financial Measures

The Company occasionally uses non-GAAP financial measures for presentation and analysis purposes. The non-GAAP financial measures are always clearly indicated, and are always accompanied by and reconciled with GAAP financial measures. The non-GAAP measures are presented in order to facilitate the comparison of results from one period to another and to allow for a better analysis of the Company's business growth and profitability potential. These non-GAAP financial measures do not have a standardized definition and cannot be compared directly with similar measures presented by other issuers. The data related to the embedded value and the added value of sales, as well as adjusted data, are not subject to GAAP.

Forward-Looking Statements

This annual report may contain forward-looking statements about the operations, objectives and strategies of Industrial Alliance Insurance and Financial Services Inc., as well as its financial situation and performance. These statements can generally be identified by the use of words such as "may," "expect," "anticipate," "intend," "believe," "estimate," "feel," "continue," or other similar expressions, in the affirmative or negative. These statements are subject to risks and uncertainties that may cause actual results to differ materially from those expressed or implied by the forward-looking statements. Factors that could cause actual results to differ materially from the Company's expectations include changes in government regulations or in tax laws, competition, technological changes, global capital market activity, interest rates, changes in demographic data, changes in consumer demand for the Company's products and services, catastrophic events 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.

About Industrial Alliance

Founded in 1892, Industrial Alliance Insurance and Financial Services Inc. is a life and health insurance company that offers a wide range of insurance products and financial services. The fifth largest life and health insurance company in Canada, Industrial Alliance is at the head of a large financial group—the Industrial Alliance Group—which has operations across Canada. Industrial Alliance insures over 1.7 million Canadians, employs more than 2,600 people and manages and administers $28.5 billion in assets. Industrial Alliance stock is listed on the Toronto Stock Exchange under the ticker symbol IAG. Industrial Alliance is among the 100 largest public companies in Canada.

Profitability

Industrial Alliance had another excellent year in 2004 and set a new Company record with shareholder net income of $155.1 million. This income is 13% higher than the restated profit for 2003[1], which translates into diluted earnings per share of $3.89 and return on common shareholders' equity of 13.6%.

2004 profits include a $6.1 million after-tax restructuring charge for the integration of National Life[2], one of the Company's life and health insurance subsidiaries. Excluding this charge, adjusted net income for 2004 was $161.2 million, 18% higher than the restated profit for 2003. This translates into diluted earnings per share of $4.05, an increase of $0.58 compared to the previous year, and return on equity of 14.1% (13.9% in 2003). This return is within the Company's 13% to 15% target range.

Shareholder net income has doubled over the past five years since the Company demutualized, which demonstrates the Company's resilience through volatile equity markets and a very competitive environment. The Company's diverse sources of profits enabled it to fare quite well through the tough economic times in the early part of this decade.

NET INCOME TO SHAREHOLDERS

(Millions of dollars, unless otherwise indicated)	2000	2001	2002	2003[3]	2004	Variation 2004 vs. 2003	Variation 5-year CAGR[4]
Net income to shareholders	98.1	103.9	97.4	136.9	155.1	13%	16%
Unusual items[5]	(6.0)	–	–	–	–	–	–
Goodwill expense[6]	2.9	3.4	–	–	–	–	–
Provision for Teleglobe[7]	–	–	19.4	–	–	–	–
Restructuring charge for National Life integration	–	–	–	–	6.1	–	–
Net income to shareholders, adjusted	95.0	107.3	116.8	136.9	161.2	18%	17%

In 2004, the Company continued the momentum set in motion concurrent with the turnaround in the equity markets in the second quarter of 2003, and has now achieved seven consecutive solid quarters. The recovery in the equity markets has provided a boost to the wealth management results (particularly the Individual

1 The 2003 results were restated after the Company realized that the amount that could be transferred from the participating policyholders' account to the retained earnings account, pursuant to the *Insurance Companies Act*, had been understated each year since 1981 due to an incorrect application of the calculation method.

2 The restructuring charge results from the Company's decision, announced on December 1, 2004, to integrate the operations of its National Life subsidiary into those of the parent company.

3 Restated.

4 CAGR: Compound Annual Growth Rate (1999 pro forma to 2004).

5 The unusual item in 2000 represents the net impact of the application of income tax reductions announced during the year in relation to the future income tax liabilities as at January 1, 2000.

6 Goodwill expense has been adjusted pursuant to the introduction of new accounting rules with respect to the amortization of goodwill.

7 In the first quarter of 2002 the Company decided to take a full provision on its entire investment in Teleglobe bonds. This reduced the GAAP reported earnings by $27.9 million with a tax offset of $8.5 million for a net reduction of $19.4 million.

Profitability: including restructuring charge for the integration of National Life

- Record net income of $155.1 million, up 13%
- Diluted EPS of $3.89, up by $0.42
- ROE of 13.6%, within the 13% to 15% target range
- Includes $6.1 million after-tax restructuring charge for the integration of National Life

Profitability: excluding restructuring charge for the integration of National Life

- Net income of $161.2 million, up 18%
- Diluted EPS of $4.05, up by $0.58
- ROE of 14.1%, within the 13% to 15% target range

Annuities business) and income on capital. The Company also had good experience results in its protection business. Profitability was good in all lines of business, particularly Group Insurance, which recorded high experience gains all year long. Sales and revenues have also shown good growth in all lines of business.

Return on Equity (ROE)

The return on equity since demutualization has consistently been above—or close to—14%, when adjusted to show comparable data. ROE reached 14.1% at the end of 2004, well within the 13% to 15% range targeted by the Company.

RETURN ON COMMON SHAREHOLDERS' EQUITY

(In percent)	2000	2001	2002	2003 [1]	2004
Return on equity	15.0	14.0	11.8	13.9	13.6
Return on equity, adjusted	14.5	14.4	14.0	13.9	14.1

Earnings Per Share (EPS)

Diluted earnings per share for 2004 (excluding the $6.1 million after-tax restructuring charge for National Life) were $4.05 compared to $3.47 in 2003. Since demutualization, the Company has achieved a compound annual growth rate above 10%, which is in line with the 10% - 12% growth rate provided to the market as a guidance for expected EPS growth. On a quarterly basis, growth in earnings per share has been consistently higher in each quarter, compared to the same quarter the previous year, excluding the impact of the Teleglobe provision in the first quarter of 2002 and excluding the restructuring charge recorded in the fourth quarter of 2004.

DILUTED EARNINGS PER SHARE (EPS)

						Variation	
(In dollars, unless otherwise indicated)	2000	2001	2002	2003 [2]	2004	2004 vs. 2003	5-year CAGR [3]
Diluted EPS	2.59	2.75	2.57	3.47	3.89	12%	15%
Diluted EPS, adjusted	2.51	2.84	3.09	3.47	4.05	17%	16%

Sources of Earnings (SOE)

The Company continues to lead the industry in financial disclosure by providing shareholders with its sources of earnings by line of business. Management believes that sources of earnings reporting will help readers better understand the Company's sources of profits for each line of business, and more importantly, provide an early indication as to the trend in profits. The sources of earnings highlights for 2003 and 2004 are indicated below.

SOURCES OF EARNINGS

(Millions of dollars)	2003 [4]	2004
Expected profit from in-force	199.2	231.7
Experience gains (losses)	13.0	18.2
Gain (strain) on sales	(69.4)	(82.4)
Changes in assumptions	(4.7)	(3.7)
Operating profit	138.1	163.8
Income on capital	54.7	69.8
Other income	7.1	0.0
Income taxes	(59.9)	(72.4)
Other items	(3.1)	(6.1)
Net income	136.9	155.1
Net income, adjusted [5]	136.9	161.2

1 Restated.

2 Restated.

3 CAGR: Compound Annual Growth Rate (1999 pro forma to 2004).

4 Restated.

5 2004 figures have been adjusted to exclude the $6.1 million after-tax impact of the restructuring charge pursuant to the integration of National Life. This charge is included in the "Other items" component of the Sources of Earnings.

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 from in-force increased by 16% over the previous year, reaching $231.7 million in 2004. This reflects the continued development and growth of profitable business over the years, including the strong growth of the segregated funds asset base. It also reflects recent emerging experience that the Company expected to maintain in 2004.

Experience gains or 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 $18.2 million in 2004 compared to $13.0 million in 2003. Three out of four lines of business recorded experience gains in 2004, led by very strong experience gains in the Group Insurance sector (in contrast, the Individual Insurance sector accounted for the bulk of the experience gains in 2003 as a result of very favourable mortality results). Only the Group Pensions sector reported a small experience loss in 2004. 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 into 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 pricing materialize and the provisions for adverse deviation are no longer required.

The new business strain was $82.4 million in 2004, which is $13.0 million more than the previous year. The higher strain results from a combination of growth in sales this year and the continuing trend in the distribution of new sales in the retail business sectors. The Company continued to maintain its disciplined approach to pricing in 2004 despite the intense 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.

The Company decided to strengthen the policy reserves by $3.7 million in 2004 as part of its usual year-end assumption update. The reserves were strengthened as follows:

- Individual Insurance – Several assumptions were modified, the three most important being higher lapse rates at renewal on term products, improvement in mortality rates and lower interest rates (net impact: reserves strengthened by $0.5 million);
- Individual Annuities – The valuation method for special guaranteed investment certificates (such as indexed GICs) was refined (net impact: reserves strengthened by $1.9 million);
- Group Insurance – Various minor adjustments were made to the reserves affecting a number of benefits (net impact: reserves strengthened by $1.3 million).

Income on capital – Income on capital represents the income derived from the investments backing the Company's capital, minus any expenses incurred to generate this income. The Company also includes the net profits of its non-life insurance subsidiaries in income on capital.

Income on capital reached $69.8 million in 2004, which is $15.1 million higher than in 2003. The increase in income on capital primarily results from the continued improvement in equity markets, lower debt cost resulting from capital restructuring earlier in the year, a growing capital base, and outstanding profits in the Company's auto & home subsidiary. The profits in this subsidiary jumped from $2.9 million in 2003 to $5.1 million in 2004 on the strength of lower claim and expense ratios.

2004 Sources of Earnings

- Expected profit from in-force up 16%, consistent with guidance of a 10% - 12% growth rate
- Experience gains of $18.2 million, led by very strong experience gains in Group Insurance
- New business strain of $82.4 million, $13.0 million more than 2003, due to strong sales growth and changes in product mix
- Policy reserves strengthened by $3.7 million as part of usual year-end assumption update
- Income on capital of $69.8 million, up by $15.1 million, driven by continued improvement in equity markets, lower debt costs, growing capital base and outstanding profits from auto & home insurance subsidiary
- Effective tax rate of 31% (excluding National Life restructuring charge), consistent with management expectations (30% to 31% in the near term)
- Restructuring charge of $6.1 million after-tax with respect to the integration of National Life subsidiary

Sources of Earnings by Line

- All lines of business, except Group Pensions, ended 2004 with higher operating profits than the previous year

Other income – Other income includes any pre-tax amounts that the Company may receive in the normal course of business, which it considers to be non-recurrent.

In 2003, the Company recorded an amount of $7.1 million under "Other income". This amount was made up of two specific items: an $8.7 million credit under the Quebec government's major investment project assistance program and a one-time charge of $1.6 million on the recapture of reinsurance contracts in the Group Pensions sector.

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 purpose of calculating the operating profit.

Income taxes totalled $72.4 million in 2004, $12.5 million more than in 2003. This increase is attributable mainly to increased profits in 2004. The effective tax rate was 31% in 2004, excluding the National Life restructuring charges. The Company expects this rate to remain at around 30% to 31% in the near term.

Other items – This year, the Company recorded a $6.1 million after-tax restructuring charge with respect to the integration of its National Life subsidiary with its own operations (see below for an update on the National Life integration). In 2003 the Company had a non-recurrent charge of $3.1 million relating to the increase in Ontario tax rates.

Sources of Earnings (SOE) by Line of Business – Operating Profit

All lines of business, except Group Pensions, ended the year with higher operating profit than the previous year. Below is a summary of the operating profit by line of business to better understand the sources of profit and contribution of each business line to the Company's overall results.

SOURCES OF EARNINGS BY LINE OF BUSINESS [1]

	Individual Insurance		Individual Annuities		Group Insurance		Group Pensions	
(Millions of dollars)	2003	2004	2003	2004	2003	2004	2003	2004
Expected profit from in-force	126.7	146.6	41.9	46.7	21.2	27.9	9.4	10.5
Experience gains (losses)	9.7	0.2	(0.9)	2.5	1.3	16.3	2.9	(0.8)
Gain (strain) on sales	(57.7)	(70.3)	(10.8)	(11.9)	0.0	0.0	(0.9)	(0.2)
Changes in assumptions	(4.3)	(0.5)	0.3	(1.9)	0.3	(1.3)	(1.0)	0.0
Operating profit	**74.4**	**76.0**	**30.5**	**35.4**	**22.8**	**42.9**	**10.4**	**9.5**
Income on capital	28.2	36.5	12.1	14.6	5.4	8.0	9.0	10.7
Other income	4.9	0.0	1.5	0.0	1.6	0.0	(0.9)	0.0
Income taxes	(32.0)	(34.2)	(13.5)	(15.7)	(9.9)	(17.0)	(4.5)	(5.5)
Other items	(2.5)	(4.8)	(0.5)	(1.0)	(0.1)	(0.3)	0.0	0.0
Net income	73.0	73.5	30.1	33.3	19.8	33.6	14.0	14.7
Net income, adjusted [2]	73.0	78.3	30.1	34.3	19.8	33.9	14.0	14.7

Individual Insurance – Individual Insurance delivered strong and stable results once again in 2004, with operating profit of $76.0 million, despite absorbing a much higher level of new business strain. These results reflect the solid profitability of the Company's growing in-force block of business. Expected profit from in-force business was up 16% to $146.6 million. Experience gains were in line with expectations in 2004, with recent favourable mortality experience reflected in the expectations for the current year. The strain on new business was up by $12.6 million because of the growth in sales this year and the continuing change in the product mix of new sales. Changes in assumptions resulted in an increase of $0.5 million in actuarial reserves at year-end compared to a $4.3 million increase the previous year.

1 2003 figures have been restated.

2 2004 figures have been adjusted to exclude the $6.1 million after-tax impact of the restructuring charge pursuant to the integration of National Life. This charge is included in the "Other items" component of the Sources of Earnings.

Individual Annuities – Thanks to the continuing positive equity markets and solid net sales for the year, operating profit was up 16% to $35.4 million. Expected profit was up 11% to $46.7 million based on anticipated high single-digit growth in equity markets. Experience gains were $2.5 million, reflecting even stronger growth in the asset base. New business strain was up $1.1 million from the previous year. Changes in actuarial assumptions resulted in an increase of $1.9 million in reserves at year-end compared to a $0.3 million reduction the previous year.

Group Insurance – Group Insurance had an outstanding year in 2004 on the heels of an excellent year in 2003. Operating profit almost doubled to $42.9 million, and Group Insurance increased its share of the Company's total operating profit to 26%, up from 17% in 2003.

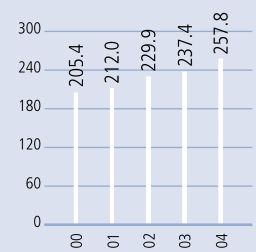
Significant growth in the expected profit from in-force business in 2004 (+32% to $27.9 million) reflects the results of the Company's strategic initiatives in the past few years in the areas of pricing and business growth, as well as continued improvement in experience. On top of this, experience gains for the year were exceptional at $16.3 million, coming from all three Group Insurance sectors - Employee Plans, Creditor Insurance and Special Markets Group. Changes in actuarial assumptions resulted in an increase of $1.3 million in reserves at year-end compared to a $0.3 million reduction the previous year.

Group Pensions – The Group Pensions line of business recorded a 9% decrease in 2004, ending the year with operating profit of $9.5 million. Expected profit from in-force business in 2004 was up 12% to $10.5 million based on anticipated high single-digit growth in equity markets. However, the sector recorded experience losses of $0.8 million in 2004 (unfavourable mortality experience on insured annuities) compared to experience gains of $2.9 million in 2003.

General Expenses

The Company continues to strictly control its general expenses. Excluding investment expenses, general expenses totalled $257.8 million in 2004, up 9% over the previous year. The increase comes mainly from growth in expenses associated with subsidiaries currently in the development phase (primarily in the mutual fund, securities and auto and home insurance sectors), the National Life restructuring charge as well as normal business growth.

GENERAL EXPENSES
(Excluding investment expenses)
$Million



National Life Integration

On December 1, 2004, Industrial Alliance announced its decision to combine the operations of its Toronto subsidiary, The National Life Assurance Company of Canada, with its own. This integration should allow Industrial Alliance to become an even more efficient organization, thereby allowing the Company to be more competitive and more profitable.

From a legal standpoint, the integration is expected to be completed by December 31, 2005, at the latest, once all necessary approvals have been obtained. From an operational standpoint, the integration should span the next two years (2005-2006).

Total restructuring costs are estimated at $12.5 million (after taxes), of which a $6.1 million charge was accounted for in the fourth quarter of 2004. The Company estimates that the impact on net income of the National Life integration should be nil in 2005 (restructuring charge net of cost savings). However, this integration should be accretive to net income by $2.2 million in 2006 ($0.05 per common share) and by $6.6 million ($0.17 per common share) per year, starting in 2007.

National Life Integration

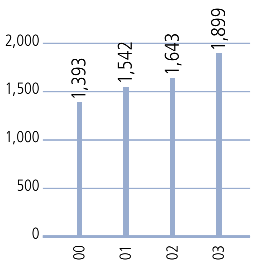
- Proceeding as planned
- Impact on EPS:
  - Nil in 2005
  - Accretive by $0.05 in 2006
  - Accretive by $0.17 per year starting in 2007

Stock Option Plan

In accordance with the plan adopted by the Board of Directors in 2001, the Human Resources and Corporate Governance Committee issued new stock options (268,000) in 2004. These new options, which expire in 2014, were issued at a weighted average exercise price of $46.71.

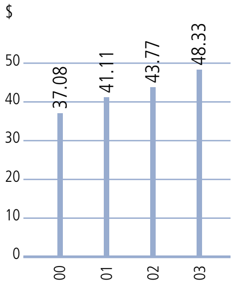
EMBEDDED VALUE

$Million



EMBEDDED VALUE
PER COMMON SHARE

$



The Company expects the recurring portion of embedded value to grow at a low double-digit rate each year.

The embedded value/book value ratio corresponded to 1.88x as at December 31, 2003, which is the highest ratio among all Canadian insurance companies that have disclosed their embedded value.

In 2004, new sales added $1.60 per share to the embedded value, 19.7% higher than the previous year.

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, 2003, the date of the most recent valuation, Industrial Alliance's embedded value reached $1.9 billion, an increase of $256 million, or 15.6% compared to 2002. This value corresponds to $48.33 per common share, which gives an idea of the economic worth of each outstanding share, without taking into account the Company's distribution capacity and future sales.

Changes in embedded value from one year to another are affected by several factors. This year, these factors can be divided into four major categories: changes in the capital structure, recurring items, non-recurring items and dividends paid to shareholders.

Certain changes in the capital structure had a direct impact on the embedded value. In April 2003, 75% of the preferred shares issued by the Company were converted into common shares, resulting in a total increase in the embedded value of $56 million (3.4%), but a $0.46 decrease in the embedded value per share. This decrease is due to the dilutive effect resulting from the conversion. In April 2004, the remaining preferred shares were also converted, leading to an additional decrease of $0.08 per share.

Recurring items caused embedded value to increase by 11.1% in 2003 (12.3% in 2002). Recurring items are composed of the added value of new sales and anticipated normal growth. The Company expects the recurring portion of embedded value to grow at a low double-digit rate 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. The most significant item in 2003 was the good performance of the financial markets, which greatly contributed to a $45 million (2.7%) increase in the embedded value.

The Company also paid $27 million in dividends to its shareholders in 2003, which represents a 1.6% decrease in the embedded value.

Also note that the $53.5 million transfer from National Life's participating policyholders' account to the retained earnings, announced in December 2004, will result in a $0.66 increase in the embedded value per share in 2004.

Embedded Value/Book Value Ratio

Another interesting measure is the embedded value/book value ratio. This ratio measures the relative value of a life insurance company's stock. At the end of 2003, the embedded value represented 1.88x the Company's book value. This is the highest ratio among all Canadian 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 enables 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.

In 2004, Industrial Alliance's new sales added $63.8 million or $1.60 per share to the Company's embedded value. This value is 19.7% higher than the previous year. This increase is primarily attributable to steady growth of sales, particularly in the Individual Annuities sector.

EMBEDDED VALUE ADDED IN 2003

	Embedded Value ($Million)	Contribution to Growth (%)	Embedded Value per Share ($)
Embedded value as at December 31, 2002	1,643	–	43.77
Conversion of preferred shares in April 2003 [1]	56	3.4	(0.46)
Recurring items			
Expected growth of embedded value	130	7.9	3.31
New sales	53	3.2	1.35
Total of recurring items	183	11.1	4.66
Non-recurring items			
Experience gains or losses – related to the equity markets	45	2.7	1.15
Experience gains or losses – other	(9)	(0.5)	(0.23)
Changes in assumptions	8	0.5	0.21
Total of non-recurring items	44	2.7	1.13
Embedded value as at December 31, 2003, before dividend	1,926	17.2	49.10
Dividend paid to shareholders	(27)	(1.6)	(0.69)
Embedded value as at December 31, 2003	1,899	15.6	48.41
Dilution related to the conversion of preferred shares in April 2004	–	–	(0.08)
Embedded value as at December 31, 2003, diluted	–	–	48.33

1 The decrease in the embedded value per share results from the fact that the conversion price ($33.14) was lower than the embedded value per share ($43.77).

Capitalization and Solvency

Sound capitalization and a healthy solvency level are key elements for a life insurance company's long-term success. These two fundamental elements are essential to ensuring a life insurance company's financial solidity and growth.

Capitalization

The Company continued to restructure its capital in 2004. The following main changes were made to the capital structure:

- the redemption of the Series 1 Subordinated Debentures, with a par value of $60 million;
- the redemption of the Series 3 Subordinated Debentures, with a par value of $75 million;
- the issuance of new subordinated debentures, with a par value of $150 million;
- the conversion of $18.75 million in preferred shares held by the Caisse de dépôt et placement du Québec into common shares;
- the transfer of $53.5 million from the National Life participating policyholders' account to the retained earnings. This transfer was made after the Company realized that the amount that could be transferred from the participating policyholders' account to the retained earnings account, pursuant to the *Insurance Companies Act*, had been understated each year since 1981, following the incorrect application of the calculation method. This transfer led to a restatement of the Company's financial statements as at January 1, 2003. However, this restatement had no impact on the Company's solvency ratio or debt ratio.

In the last two years, the Company has thus redeemed all of its subordinated debentures ($185 million in total), converted all of its preferred shares ($75 million) and issued $150 million in innovative tier 1 capital and $150 million in new subordinated debentures.

Today, Industrial Alliance's capital structure is made up of three main categories of capital: equity (common shares and retained earnings), debt securities (subordinated debentures and other debts) and other items (contributed surplus, currency translation account and participating policyholders' account). At the end of 2004, equity accounted for 79.0% of the capital.

As at December 31, 2004, the Company's capitalization totalled $1.5 billion, a 10% increase compared to December 31, 2003. Most of the growth comes from the net income realized during the year. In the last five years, the Company's capitalization has grown at an average annual rate of 11%.

CAPITAL STRUCTURE

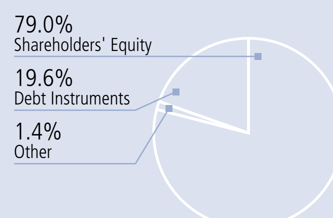
(Millions of dollars)	2000	2001	2002	2003[1]	2004
Subordinated debentures	185.0	185.0	185.0	135.0	150.0
Other debts ("IATS")	–	–	–	150.0	150.0
Preferred shares	75.0	75.0	75.0	18.7	–
Common shares	379.2	382.0	382.0	438.3	458.1
Retained earnings	316.9	397.6	470.2	627.5	751.7
Contributed surplus	–	–	3.3	6.5	9.5
Currency translation account	7.4	10.2	7.5	(2.5)	(5.8)
Participating policyholders' account	50.7	53.4	59.5	13.2	17.3
Total	1,014.2	1,103.2	1,182.5	1,386.7	1,530.8

Changes to the Capital Structure

- Conversion of preferred shares into common shares
- Redemption of the Series 1 and Series 3 Subordinated Debentures
- Issuance of new subordinated debentures
- Transfer from the participating policyholders' account to the retained earnings account

DISTRIBUTION OF CAPITAL

2004



1 Restated.

Solvency

Overall, the changes made to the capital structure during the year did not lead to any significant change in the Company's solvency ratio. The solvency ratio reached 222% as at December 31, 2004, one percentage point higher than at the end of 2003. This ratio far exceeds the regulatory authorities requirements and the Company's objective of maintaining a ratio between 175% and 200%.

Priorities for the use of excess capital

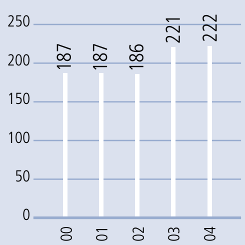
- Financing organic business growth
- Financing acquisitions
- Increasing the dividend
- Buying back common shares

This excess capital offers the Company a great deal of financial flexibility. The Company's priorities with respect to the use of the excess capital are as follows: financing organic business growth, financing acquisitions if opportunities arise, increasing the dividend and buying back shares.

Even though the solvency ratio was relatively stable during the year, several factors put upward or downward pressure on the solvency ratio. Following are some of the main factors that caused the solvency ratio to increase:

- the contribution of net income to the available capital, net of the increase in required capital related to normal business growth;
- the issuance of new subordinated debentures;
- the upturn in the stock markets (which reduced the segregated fund guarantee requirements); and
- the repayment of a commercial loan in default and the decrease in uninsured mortgage loans.

SOLVENCY RATIO
(MCCSR)



MCCSR: Minimum Continuing Capital and Surplus Requirements

On the other hand, the following factors caused the solvency ratio to decrease:

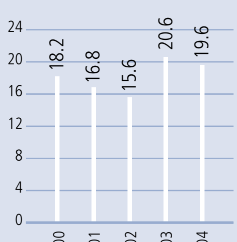
- the redemption of the Series 1 and Series 3 Subordinated Debentures;
- the increase in goodwill related to acquisitions in 2004, particularly BLC-Edmond de Rothschild Asset Management Inc. and FundEX Investments Inc.; and
- the gradual introduction of the new lapse risk requirements by the regulatory authorities.

Please note that in the normal course of business, the Company generates more capital than is required for its organic growth needs, which increases the solvency ratio. The excess capital thus generated comes primarily from the Company's good profitability.

It should also be noted that the Autorité des marchés financiers (AMF) modified the requirements regarding the treatment of negative reserves in the fourth quarter of 2004. These modifications, which had no impact on the Company's solvency ratio, led to a shift of capital from tier 2 (temporary capital) to tier 1 (permanent capital), thereby improving the quality of the Company's capital. AMF is the regulatory authority that governs the Company.

Debt Ratio

DEBT RATIO[1]



The debt ratio was 19.6% as at December 31, 2004. In spite of a net increase in the amount of the subordinated debentures in 2004, the growth of retained earnings caused the Company's debt ratio to decrease by one percentage point compared to the end of 2003. The growth in retained earnings is a direct result of the Company's excellent profitability performance in 2004.

The Company's debt ratio is at a very acceptable level for the credit agencies (see the section below on credit ratings). Thus, the Company still has financial flexibility to leverage its capital structure.

Number of Shares

The number of issued and outstanding shares as at December 31, 2004 was 39,744,700, an increase of 399,100 over December 31, 2003. This increase is attributable to the issuance of 444,600 shares following the conversion of preferred shares into common shares, the cancellation of 108,200 unclaimed shares issued at demutualization, the issuance of almost 10,000 shares following the acquisition of a company and the issuance of 52,700 shares subsequent to the exercising of options under the stock option plan.

Number of shares issued and outstanding: 39,744,700 as at December 31, 2004

1 The debt ratio, expressed as a percentage, is obtained by dividing the subordinated debentures and Industrial Alliance Trust Securities (IATS) by the capital structure.

Credit Ratings

In 2004, the three independent credit agencies that rate Industrial Alliance renewed all of their ratings for the Company with a stable outlook. These ratings confirm the Company's financial solidity and its ability to respect its obligations to policyholders and creditors.

CREDIT RATINGS

Rating Agency	Type of Evaluation	Rating	Outlook
Standard & Poor's	Financial Strength Rating	A+(Strong)	Stable
	Issuer Credit Rating	A+	Stable
	Subordinated Debentures	A-	Stable
	Industrial Alliance Trust Securities (IATS)	BBB+	Stable
DBRS	Claims Paying Ability	IC-2	Stable
	Subordinated Debentures	A	Stable
	Industrial Alliance Trust Securities (IATS)	A (low)yn	Stable
A.M. Best	Financial Strength Rating	A (Excellent)	Stable
	Issuer Credit Rating	a+	Stable
	Subordinated Debentures	a-	Stable
	Industrial Alliance Trust Securities (IATS)	bbb+	Stable

Normal Course Issuer Bid

Renewal of Normal Course Issuer Bid

At the beginning of 2005, the Company renewed its normal course issuer bid.

Following the approval of the Toronto Stock Exchange, 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 March 1, 2005 to February 28, 2006, up to 1,900,000 of its common shares. These shares represent approximately 4.8% of the common shares issued and outstanding. Under this authorization, the purchases will be made at market prices through the facility of the Toronto Stock Exchange, in accordance with its rules and policies. The common shares thereby purchased will not be cancelled and will remain available for future use. 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 previous bid ended on December 23, 2004. No common shares were purchased under previous normal course issuer bids.

Personal Financial Services

- Individual Insurance
- Individual Annuities
- Wealth Management
- Development Strategy

Note – Refer to the text on pages 18 to 21 for a detailed description of the Individual Insurance and Individual Annuities lines of business.

Individual Insurance

- New sales record
- Sales growth of 9%
- Surpassed our "industry + 5%" sales growth objective
- Increased our market share in sales from 11.9% in 2003 to 13.2% in 2004
- Gained one ranking in sales (ranked third in 2004)
- Number one in Canada in Universal Life sales
- Implemented a new Canada-wide distribution structure by distribution network rather than by company
- Numerous improvements to the product line

The results of our Personal Financial Services activities are presented in four main sections:

- Individual Insurance, where we present our results and achievements for 2004;
- Individual Annuities, where we also present our results and achievements for 2004;
- Wealth Management, where we take stock of our main achievements and acquisitions in 2004; and
- Development Strategy, where we describe the different components of the strategy adopted for the entire Personal Financial Services sector.

Individual Insurance

The Individual Insurance sector had an exceptional year in 2004. In terms of business growth, this sector surpassed its targeted sales growth objective of five percentage points higher than the industry, recording the highest sales in the Company's history.

From a strategic standpoint, the highlight of the year was definitely the implementation of a common distribution strategy for the Industrial Alliance Group's three life insurance companies. The distribution of individual insurance products is now structured by distribution network rather than by company, which should further strengthen the Company's competitive position in the individual life insurance market.

Business Growth

The Individual Insurance sector recorded very good results throughout the year, with sales for this line of business reaching $139.9 million for the year, the highest sales ever achieved by the Company, and an increase of 9% over 2003. This growth is higher than the industry, which recorded a 1%[1] decrease in sales in 2004, enabling this sector to surpass the Company's sales objective of "industry growth plus five percent".

INDIVIDUAL INSURANCE
BUSINESS GROWTH

(Millions of dollars, unless otherwise indicated)	2000	2001	2002	2003	2004
Sales [2]	125.3	135.6	133.3	128.7	139.9
Growth	10%	8%	(2%)	(3%)	9%
Premiums [3]	597.8	642.8	663.9	683.4	763.1
Growth	12%	8%	3%	3%	12%

1 All data regarding industry sales in the Individual Insurance sector were obtained from LIMRA.

2 In the Individual Insurance sector, sales are defined as first-year annualized premiums. Sales do not include premiums for business written for members of the Canadian Medical Association (CMA) for 2000 and 2001. CMA business is excluded in order to make the data comparable from one year to another (CMA business was transferred to MD Life, a satellite company that is jointly owned by MD Management (55%) and National Life (45%), a subsidiary of Industrial Alliance).

3 Excluding Canadian Medical Association (CMA) business for 2000 and 2001.

With these sales results, the Company was able to improve its ranking to third in Canada in individual life insurance sales, with a market share of 13.2% (ranked fourth in 2003, with 11.9% of the market).

Sales by distribution network are up for all networks. However, the strongest growth came from the National Accounts network in 2004 (up by 43%). We are nevertheless very satisfied with Career network and General Agents network sales as well (up by 6% for each of these networks in 2004), where competition continues to be intense. Note that sales in the General Agents network accounted for 64% of the Company's Individual Insurance sales.

Sales by product were especially favourable for Universal Life policies (up 13%), the Company's flagship product. Universal Life sales benefited from the stock market recovery and the renewed popularity of this product in 2004. This renewed popularity was particularly noticeable among high-income clients, who increased the amounts invested in the "savings" component of their contracts.

Thanks to strong Universal Life sales, the Company was able to preserve its top ranking in Canada, with 18% of the market, a position we have held for several years despite the merging of several big industry players. Universal Life sales accounted for 67% of all sales for the Industrial Alliance Group, compared to 54% for the industry.

Unlike Universal Life sales, term insurance sales were down slightly in 2004 (decrease of 7%). The market is still very competitive for term insurance products. In fact, a number of companies lowered their prices in 2004, in keeping with the downward trend that has prevailed in recent years. Our strategy in this sector is to preserve the gains that we have made while protecting our profit margins.

Strong sales growth in 2004, good business persistency and the recapture of a $30.6 million block of reinsurance boosted the sector's premium income by 12% to reach $763.1 million in 2004.

2004 Achievements

The most significant achievement was the restructuring of the distribution activities for the Individual Insurance and Annuities sectors of the Group's three life insurance companies. This restructuring, which took effect on January 1, 2005, resulted in the Company's distribution activities being reorganized by distribution network rather than by company. More details on this restructuring are provided in the Development Strategy section for Personal Financial Services.

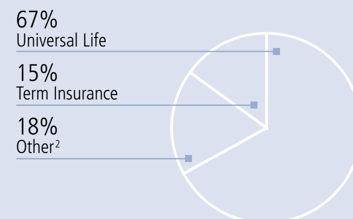
Considerable achievements were also made on the product front in 2004. Several improvements and innovations were made to our product line in order to strengthen our competitive position in the various target markets served by our distribution networks.

- In Universal Life insurance, we harmonized the pricing of the Group's two Universal Life policies following the implementation of the new Canada-wide distribution strategy. We also made improvements to the underwriting criteria in order to accelerate the contract issue process, and standardized the reinsurance rules for the Group's three life insurance companies.
- In traditional insurance, we launched a new permanent insurance product with a guaranteed cash surrender value. The new features offered by this product are designed mainly for families, and are intended to improve our competitive positioning in this market segment.
- In health insurance, the Company continued to innovate by launching a critical illness product with non-guaranteed premiums. This product is designed to make critical illness insurance more affordable for consumers by sharing the risk between the client and the Company. Improvements were also made to the entire line of critical illness products, including an increase in the number of illnesses covered, the addition of a partial benefit based on the stage of the insured's illness, etc.
- In disability insurance, the Company introduced a new disability insurance rider called the *Supplementary Income* rider. This rider is used to ensure continuity of income when an insured becomes totally disabled due to an accident or illness.

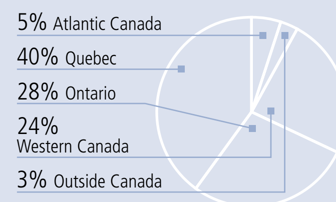
On the technology and administrative fronts, we completed the final phase of a major project to decentralize transactional functions to the Career network branches. Now all branches and representatives in the network can enjoy the advantages of decentralization and benefit from greater flexibility, efficiency and speed of information processing.

SALES BY DISTRIBUTION NETWORK
2004

SALES BY PRODUCT CATEGORY
2004



SALES BY REGION
2004



1 Includes alternative distribution network sales (primarily financial institutions). This change was made following the implementation of the Industrial Alliance Group's new distribution structure, which is now organized by network.

2 The "Other" category includes T-100 products, critical illness products and disability insurance products.

Individual Annuities

- New sales record, with over $900 million in sales
- Sales growth of 38%
- Best segregated fund sales—and net sales—in the Company's history
- Fourth in Canada in net segregated fund sales, with 13.7% of the market
- Numerous improvements to the product line

Individual Annuities

In addition to being an exceptional year for Individual Insurance, 2004 was equally impressive for Individual Annuities. This line of business achieved the targeted sales growth objective of five percentage points above the industry and closed the year with total sales of over $900 million, the highest individual annuity sales in the Company's history.

From a strategic standpoint, like in the Individual Insurance sector, the highlight of the year was the Company's decision to reorganize the distribution activities of the Industrial Alliance Group's three life insurance companies, as well as the implementation of a new marketing strategy whereby the Company now distributes a single line of individual annuities products throughout Canada.

Business Growth

An extremely successful RRSP campaign set the tone for an outstanding year, with new deposits totalling $906.8 million in 2004, a 38% increase over the previous year. In absolute terms, sales for 2004 were the best in the Company's history. It was also the best performance in terms of growth since 1997.

INDIVIDUAL ANNUITIES

SALES/PREMIUMS

(Millions of dollars, unless otherwise indicated)	2000	2001	2002	2003	2004
Sales/premiums [1]	613.8	529.1	590.7	658.7	906.8
Growth	29%	(14%)	12%	12%	38%

SALES BY DISTRIBUTION NETWORK

2004

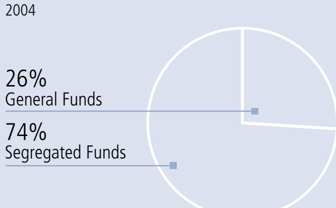
2004 sales were up for both of the Company's distribution networks and for all product categories, but particularly for segregated funds, which grew by 55% in 2004. This growth is higher than the mutual fund industry, where sales grew by 28% in 2004[2].

These results can be explained by two factors: the strong performance of the stock markets and the excellent returns on our various funds. In this regard, the percentage of our investment fund assets situated above the median in terms of gross returns, over a one-year period, was 72% as at December 31, 2004. The mid-term performances (3-year and 5-year) were also excellent, with more than 82% of our clients' assets surpassing the median gross return for these terms. Over ten years, the percentage of assets situated above the median was 60%. Note as well that the Company's segregated funds include a capital guarantee at death and at maturity that is very attractive to more cautious investors.

Net segregated fund sales were once again positive, totalling $332.7 million for 2004, nearly triple the net sales for 2003. For long-term funds, net sales represented 8.5% of the assets for these funds, which is well above the segregated fund and mutual fund industry combined (5.3%). The Company was ranked fourth in Canada in net segregated fund sales in 2004, with a market share of 13.7%[3]. Our market share has grown continually over the past five years, increasing from 4.2% in 2000 to 13.7% in 2004 (11.4% in 2003).

SALES BY PRODUCT CATEGORY

2004



Strong net sales and good stock market performances pushed general fund and segregated fund assets to $5.6 billion, an increase of 12% for the year. This growth comes entirely from segregated funds (up 19% for the year), since general fund assets were stagnant in 2004. As at December 31, 2004, the Company was ranked fourth in Canada in segregated fund assets, with 7.6% of the market (7.4% as at December 31, 2003)[4].

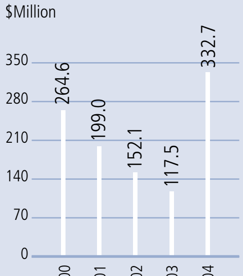
INDIVIDUAL ANNUITIES

FUNDS UNDER MANAGEMENT

(Millions of dollars, unless otherwise indicated)	2000	2001	2002	2003	2004
General funds	1,786	1,722	1,738	1,775	1,771
Segregated funds	2,860	2,928	2,795	3,262	3,872
Total	4,646	4,650	4,533	5,037	5,643
Growth	2%	0%	(3%)	11%	12%

NET SEGREGATED FUND SALES

$Million



1 In the Individual Annuities sector, sales are defined as premiums.

2 According to the Investment Funds Institute of Canada (IFIC).

3 Source: Investor Economics.

4 Source: Investor Economics.

2004 Achievements

In addition to reorganizing the distribution activities and marketing the same line of savings products in the Group's three life insurance companies (refer to the Development Strategy section for more details), the Company's achievements included the introduction of several new offerings as well as various improvements to its product line in 2004. Below are just a few examples:

- Addition of three new investment funds to the family of funds offered by Individual Annuities, including the Canadian Equity Fund (Leon Frazer), the spearhead of the Industrial Alliance Mutual Funds subsidiary. The addition of this fund is part of a bigger marketing strategy designed to increase the subsidiaries' funds under management, particularly funds manufactured by Industrial Alliance.
- Revision of investor profile in order to improve on the recommendations regarding the composition of our clients' investment portfolios.
- Implementation of new transactional procedures designed to identify and discourage frequent trading.
- Added flexibility for the education savings plan, including an attractive loan solution that enables parents to benefit from the government subsidies for unclaimed education savings amounts.
- Introduction of four new series of the Principal Guaranteed with an Alternative Investment (PGA) product. Like guaranteed investment certificates (GICs), this product targets clients who are looking for a secure investment, but in this case, are also looking to benefit from the return potential offered by the equity markets.
- Introduction of a distinctive guaranteed investment, offered as a special issue during the 2004 RRSP campaign. What set this product apart was its maturity date (6-year term) and its highly competitive interest rate.

On the technology front, the Group committed itself to continually improving sales and management tools in order to support the business development efforts of representatives in the wealth management sector. Our computerized retirement planning and asset allocation tools are two such examples.

Wealth Management

The development of our activities in the wealth management sector continued in full force in 2004, both through acquisitions and organically.

In terms of acquisitions, one of the most significant events of the year was the November 4 announcement of the acquisition of BLC-Edmond de Rothschild Asset Management Inc. (BLCER). As at December 31, 2004, BLCER managed $1.8 billion in assets, which is made up of $911 million in mutual funds, $147 million in private wealth and $725 million in institutional money. This acquisition enabled Industrial Alliance to expand its family of funds and obtain immediate scale in this sector. It also gave the Company access to a new distribution network thanks to a 10-year exclusive distribution agreement with Laurentian Bank. The transaction closed successfully on December 31, 2004, and the company was renamed Industrial Alliance Fund Management Inc. (IAFM).

The Company also increased its interest in FundEX Investments Inc. during the year from 25% to 83.5%. FundEX is a mutual fund brokerage firm based in Ontario. As at December 31, 2004, FundEX administered $4.3 billion in assets.

In addition, the Company's securities subsidiary, Industrial Alliance Securities Inc. (IAS), acquired Lynch Investments Inc., a full-service securities brokerage firm based in Nova Scotia. At the time of the purchase, Lynch had some $70 million in assets under administration. The transaction closed on June 30, 2004, and Lynch was then merged with IAS. This acquisition enabled IAS to receive the necessary approvals to be registered nationwide.

Lastly, the Company completed the acquisition of a fund management shell company called Services de gestion Évolution FM inc., and changed its name to Industrial Alliance Investment Management Inc. (IAIM). IAIM ensures the management of the segregated fund and mutual fund portfolios for the companies of the Industrial Alliance Group, using a team of about fifteen investment professionals. This restructuring will give IAMF and IAFM access to Industrial Alliance's investment managers.

2004 Acquisitions

- Acquisition of BLC-Edmond de Rothschild, a fund manufacturer
- Acquisition of a majority interest in FundEX, a mutual fund broker
- Acquisition of Lynch Investments, a securities brokerage firm
- Acquisition of Services de gestion Évolution FM, an investment manager

Wealth management sectors developed by Industrial Alliance

- Mutual fund manufacturing: $1.0 billion in assets under management
- Mutual fund distribution: $5.7 billion in assets under administration
- Securities distribution: $896 million in assets under administration
- Private wealth management: $147 million in assets under management
- Institutional money management: $725 million in assets under management

While four years ago the Company had no operations in the wealth management sector, today it has operations in five major segments of this market, namely:

- Mutual fund manufacturing – The Company has two subsidiaries in this sector: Industrial Alliance Mutual Funds Inc. (IAMF) and Industrial Alliance Fund Management Inc. (IAFM, formerly BLC-Edmond de Rothschild Asset Management Inc.). IAMF offers a family of 8 mutual funds, while IAFM offers a family of 23 mutual funds, 5 product portfolios and one hedge fund. Some IAMF operations will be integrated with those of IAFM in the coming months. The new entity will manage over $1 billion in mutual fund assets.
- Mutual fund distribution – The Company has two subsidiaries in this sector as well: Investia Financial Services Inc. and FundEX Investments Inc., both mutual fund brokers that offer the funds of the majority of large Canadian investment fund companies. Investia distributes its funds mainly through representatives of the Industrial Alliance Group companies' distribution networks, while FundEX distributes its funds through nearly 450 licensed advisors, primarily to a high-income clientele. Together, these companies administer $5.7 billion in assets.
- Securities distribution – The Company has one subsidiary in this sector: Industrial Alliance Securities Inc. (IAS). IAS was created in 2002, and is a full-service securities brokerage firm. It distributes its products through more than 100 brokers, and administers close to $900 million in assets.
- Private wealth management – This is a new segment for the Company, inherited from the acquisition of BLC-Edmond de Rothschild Asset Management Inc. (BLCER). The private wealth management products are distributed primarily by representatives of Laurentian Bank, with which the Company signed a distribution agreement. The Company's private wealth management assets amount to $147 million.
- Institutional management – The acquisition of BLCER also led the Company to inherit over $700 million in institutional money. The Company was already active in this segment through its Group Pensions line of business, which managed over $350 million in the form of investment only products. The Company plans to continue actively developing this market segment.

In total, the Company currently has $8.5 billion under management and administration in the wealth management sector.

INDUSTRIAL ALLIANCE ASSETS UNDER MANAGEMENT AND ADMINISTRATION IN THE WEALTH MANAGEMENT SECTOR

(Millions of dollars)	December 31, 2003	December 31, 2004
Mutual funds – Manufacturing		
Industrial Alliance Mutual Funds Inc.	94	111
BLC-Edmond de Rothschild, renamed Industrial Alliance Fund Management Inc.	–	911
Mutual funds – Distribution		
Investia Financial Services Inc.	1,011	1,469
FundEX Investments Inc.	3,514	4,262
Securities – Distribution		
Industrial Alliance Securities Inc.	455	896
Private wealth management		
BLC-Edmond de Rothschild, renamed Industrial Alliance Fund Management Inc.	–	147
Institutional management		
BLC-Edmond de Rothschild, renamed Industrial Alliance Fund Management Inc.	–	725

In addition to helping the Company build a very good asset base, all of the Company's acquisitions in the wealth management sector (nine in total) over the past few years have had an additional objective: to add new distribution networks. By adding these new networks, the Company is aiming to benefit from the convergence taking place in the area of financial product distribution. Many representatives have more than one license to sell financial products, and are increasingly looking to offer their clients a wider range of financial products and services. Our strategy is to work together with them in this regard.

Development Strategy

The development strategy for the Individual Insurance, Individual Annuities and wealth management sectors involves offering, on an individual basis, a line of financial products and services that is as comprehensive as possible in order to meet the diverse needs of our clientele. This strategy has two main components: development of innovative products and access to diversified distribution networks.

Over the last few months, the Company also decided to modify its Canada-wide distribution strategy by reorganizing the distribution activities of the Group's three life insurance companies by network rather than by company.

Lastly, in the wealth management sector specifically, the Company's strategy is to accelerate development by favouring the growth of funds under management, particularly products manufactured by one of the Industrial Alliance Group companies.

Below is a more detailed description of the various components of the Company's strategy, starting with the reorganization of distribution activities.

1 ■ Reorganization of distribution activities for the Group's three life insurance companies

From a strategic standpoint, the measure that will likely have the biggest impact in the coming years is the reorganization of the distribution activities for the Individual Insurance and Annuities sectors of the Group's three life insurance companies. This reorganization took effect on January 1, 2005, and resulted in the Company's distribution activities being organized by distribution network rather than by company. Representatives now distribute the Company's products through one of the following three networks:

- the Career network, made up of nearly 1,400 dedicated representatives. These representatives distribute the Company's products primarily in Quebec;
- the General Agents network, made up of over 12,000 insurance brokers. These brokers distribute the Company's products throughout Canada, in all market segments, from low-income families to middle- and high-income families; and
- the National Accounts network, made up of some 200 securities brokers and financial planners. These representatives distribute the Company's products throughout Canada, primarily to high-income families, through securities and mutual fund brokerage firms.

Under the new strategy, only one line of individual insurance and annuity products will be offered in all of the Company's distribution networks, thus ensuring better coordination of development and marketing activities nationwide. The strategy also aims to strengthen the Company's positioning in the Canadian market, thereby making the Company even more competitive and profitable.

2 ■ Development of innovative products

The Company's products can be divided into two main categories:

- insurance products, which offer coverage against unforeseeable life events; and
- savings products, which cover financial planning needs.

In developing its products, the Company tries to continually adapt to any changes in client needs or market conditions, and to develop innovative products. In the past few years, for example, the Company successfully adapted to its clients' growing interest in new savings products, which is undoubtedly linked to the growth in individual and collective wealth. The development of products like education savings plans, a segment where the Company has been quite innovative compared to its competitors, and the acquisition of mutual fund manufacturers are just two examples of these types of initiatives.

Development Strategy

- Reorganization of distribution activities for the Group's three life insurance companies
- Development of innovative products
- Access to diversified distribution networks
- Acceleration of growth in the wealth management sector

3 ■ Access to diversified distribution networks

Any product development strategy, no matter how good it is, must be backed by an effective distribution strategy. In order to reach as many clients as possible, our approach is to use a combination of several types of distribution networks. Our distribution approach is still rooted in traditional networks of life insurance representatives, i.e. our dedicated network, and independent brokers. We continue to support the growth and repositioning of our dedicated network so it can adapt to the market. Regarding independent distributors, we still favour the long-term development of organizations that subscribe to our business model.

Nevertheless, our traditional networks do not necessarily provide access to the full range of clientele. This is why our initiatives in the last few years have focused on developing non-traditional networks, such as the securities brokers and mutual fund advisors networks.

Moreover, many distributors hold a license in more than one discipline, enabling them to provide clients with a wider range of products and services. With referral agreements, certain distributors can also gain access to complementary products.

4 ■ Acceleration of growth in the wealth management sector

Our strategy in the wealth management sector can be summarized as follows:

- Grow our various wealth management subsidiaries, improve their efficiency and make them profitable; and
- Introduce products that are likely to interest representatives from the new distribution networks (mutual funds and securities, in particular) in order to promote the growth of products manufactured by one of the Industrial Alliance Group companies, starting with segregated funds and mutual funds, and, in a second phase, insurance and annuity products.

Auto and Home Insurance

Industrial Alliance markets its auto and home insurance products through its Industrial Alliance Auto and Home Insurance (IAAH) subsidiary. These products are distributed in Quebec to individuals. They are distributed directly, mainly through referrals provided by representatives from the parent company's Career network (almost 1,400 representatives). Industrial Alliance Auto and Home Insurance has almost 350 employees.

At the beginning of 2000, the parent company implemented an ambitious development plan designed to quintuple the business volume of its auto and home insurance subsidiary and make it a leader in the direct distribution of general insurance in Quebec.

At the end of this five-year plan, all of these objectives have been achieved. In five years, the business volume in auto and home insurance increased from $26 million to $90 million and the company reached the break-even point in 2003, one year earlier than expected.

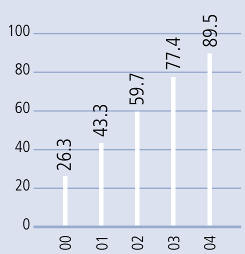
This success was achieved through an effective program of referrals by the parent company's Career network representatives, the awareness of the Industrial Alliance brand name in Quebec, constant development of personnel and strict control over operating expenses.

Now that the critical mass has been achieved, the main challenge for Industrial Alliance Auto and Home Insurance for the next few years will be to continue to consistently underwrite new business in a very competitive environment.

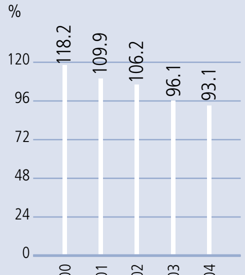
To do this, IAAH will continue to rely on the two main distribution systems that have been successful thus far, those being referrals from the parent company's Career network and direct calls from the public. These two development axes are complemented by various additional activities, including on-line quotations and agreements with affinity groups.

Auto and Home Insurance

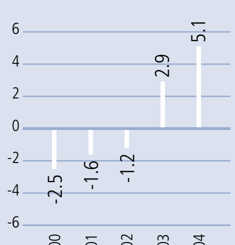
DIRECT PREMIUMS UNDERWRITTEN
$Million



COMBINED RATE[1]
%



NET INCOME
$Million



[1] The combined rate is made up of the claims rate and the commissions and expenses rate.

Group Products and Services

- Group Insurance
  - Employee Plans
  - Creditor Insurance
  - Special Markets Group
- Group Pensions

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 markets.

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

The following pages provide a more detailed description of the business growth, main achievements and development strategies of these various lines of business.

Note – Refer to the text on pages 22 and 23 for a detailed description of the Group Insurance line of business.

Group Insurance – Employee Plans

The Group Insurance Employee Plans sector continued to grow in 2004, with a 5% increase in sales and improved business persistency.

From a strategic standpoint, the highlight of the year was undoubtedly the implementation of a new marketing approach whereby the Industrial Alliance Group's three life insurance companies market their products under a single brand—that of Industrial Alliance—throughout all of Canada. This change, which took effect on January 1, 2004, was well received by the market judging by the 28% increase in new sales for the year outside Quebec.

Business Growth

Group Insurance Employee Plan sales totalled $55.7 million in 2004, an increase of 5% over the previous year. Sales were strongest in Ontario (40% of 2004 sales were made in Ontario), and among medium-sized businesses (72% of 2004 sales were made to these companies).

While our growth rate is comparable to industry growth in 2004 (+5% for Industrial Alliance and +7% for the industry), it is higher than the industry for our target group of companies with 50 to 1,000 employees. Our sales were up by 17% in this market segment in 2004, compared to 6% for the industry. Our sales rankings and market shares remained relatively stable in 2004, ranking seventh overall with 3.6% of the market, and sixth for our target group with 7.1% of the market.

Sales growth and good business persistency brought premiums and income from administrative services only (ASO) contracts to $544.5 million in 2004, an increase of 4% over the previous year. This growth is lower than in past years, primarily due to lower growth of medical expenses.

When considered over a longer period, premiums and ASO income have practically doubled since 2000. This is due to several factors: strong sales over the past few years, the signing of the biggest contract in the Company's history (the Bombardier contract), good business persistency and rising health care costs.

2004 Highlights

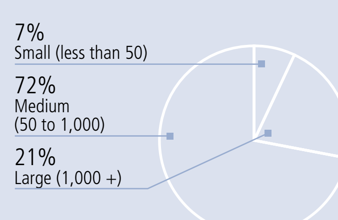
- Sales growth of 5%
- Sales growth of 28% outside Quebec
- Improved persistency of in-force business
- Premiums and ASO income practically double the 2000 results
- Sixth in Canada in our target market of groups with 50 to 1,000 employees, with a market share of 7.1%

SALES BY REGION

2004

SALES BY COMPANY SIZE

2004



GROUP INSURANCE – EMPLOYEE PLANS

BUSINESS GROWTH

(Millions of dollars, unless otherwise indicated)	2000	2001	2002	2003	2004
Sales [1]	37.4	59.1	92.4	53.3	55.7
Growth	(1%)	58%	56%	(42%)	5%
Premiums	276.5	331.6	378.6	426.0	448.4
Income from administrative services only (ASO) contracts	29.0	33.5	43.9	99.2	96.1
Total	305.5	365.1	422.5	525.2	544.5
Growth	19%	20%	16%	24%	4%

2004 Achievements

- New Canada-wide marketing strategy: marketing under the Industrial Alliance brand name alone
- Customer service survey: very high level of satisfaction
- Implemented an imaging system for disability insurance claims
- Added new functions to Web@dmin, our transactional website: over 500 groups are now connected
- Updated a new Canada-wide standard group insurance contract
- Launched a new critical illness insurance product

2004 Achievements

As mentioned earlier, the most significant achievement in 2004 was the implementation of a new marketing strategy on January 1 whereby the products and services for this line of business are distributed under a single brand—that of Industrial Alliance. This strategy was designed primarily to strengthen the positioning of Industrial Alliance in the Canadian market and to provide plan members, sponsors and administrators with competitive tools, management services and insurance coverage.

The strategy was successful. Sales outside Quebec grew very quickly in 2004 (+28%) and the persistency rate for the rebranded groups was very high. Approximately 500 groups were rebranded in 2004, and tens of thousands of member packages were distributed to plan administrators and insureds. Thanks in part to the hard work of the administrative teams in Toronto and Western Canada, the transition went very well. The brand change for in-force National Life and Industrial Alliance *Pacific* groups will be completed in the spring of 2005.

We also conducted a customer service survey among several hundred plan administrators. Overall, the results were very positive, but they enabled us to identify the areas we would benefit most from improving. The survey results were shared with our various clients, including administrators and representatives.

In a further effort to improve the quality of our service, we began implementing an imaging system for disability insurance claims.

The Internet management tool that we offer to plan members and administrators, known as Web@dmin, continues to be very successful. This tool, which is continually being enhanced, is being used by over 500 groups. New functions have been introduced, including the ability to calculate member contributions and taxable benefits. We also made new functions available to members that give them access to more information about their coverage. Representatives also have access to financial information on their clients.

As well, we updated the wording in our standard group insurance contract. This exercise was designed to harmonize our agreements nationwide, and enabled us to make several improvements to various benefits. For example, a return to work clause that better reflects the Company's current disability management philosophy was added to the long-term disability insurance provision.

Lastly, we launched a new critical illness insurance product. Some of this product's features include a longer list of covered illnesses, and a new benefit for dependent children. The price of the new product is also more competitive.

[1] In the Group Insurance Employee Plans sector, sales are defined as first-year annualized premiums. 2002 sales include an amount of $50.9 million for the Bombardier contract.

Development Strategy

Industry consolidation continued in 2004, with the mergers and acquisitions of recent years resulting in a greater concentration in the market. As a result, the three largest insurance companies hold approximately two thirds of the Canadian market. Although this consolidation puts pressure on the smaller players, it also creates opportunities for medium-sized companies like Industrial Alliance, particularly with representatives, who are continually demonstrating their desire to have access to a larger pool of insurers.

By marketing our products under a single brand name, we were able to obtain the status of a national insurance company. This kind of status is especially important for groups with operations in different parts of the country, including a number of employers with 1,000 employees or more.

Our strategy for 2005 focuses on the following five elements:

- Canada-wide development – In terms of business growth, we will continue our efforts to grow our market share, especially outside Quebec. We will continue our print advertising campaign aimed at industry decision-makers in order to increase the Company's brand awareness. 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 or finance managers and union representatives.
- Focus on the medium-sized business market – Groups with 50 to 1,000 employees will continue to be the Company's primary source of new business. This is a market segment that we know very well, and one where our flexibility and local presence constitute major assets.
- Opportunistic towards larger group sales – Given the success we have had in the medium-sized business market over the past few years, combined with our new nationwide marketing strategy and our strengthened relationships with the actuarial consulting firms, we are confident that we can start to venture much more frequently into the larger business market, namely groups with 1,000 to 5,000 employees.
- Strengthening of relationships with selected intermediaries – 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.
- Improvement of the product line – In terms of products and services, two of the projects that we are planning to carry out are: to launch a special product for expatriate employees and to provide members with a *Health* and *Well-Being* section on our website.

Lastly, in terms of profitability, we will continue to focus on our key success factors: control of operating expenses, improvement of the business processes, and the continuous monitoring of loss ratios for each benefit and each market segment.

From a marketing standpoint, 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, and by dedicated administrative teams 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, or with our disability management program, which emphasizes the employee's role in the process and promotes his return to work under the best possible conditions. Flexibility is also defined as the ability to offer flexible employee benefits programs for members from large companies, thanks to our flexible technology tools, such as our Web@dmin transactional site.
- By offering "superior service": service quality is defined as the ability to respond quickly and efficiently to client requests and to implement state-of-the-art technology tools, at competitive prices.

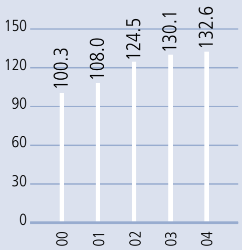
Development Strategy

- Canada-wide development
- Focus on the medium-sized business market (50 to 1,000 employees)
- Opportunistic towards larger group sales (1,000 to 5,000 employees)
- Strengthening of relationships with selected intermediaries
- Improvement of the product line

Factors that set us apart

- Accessibility
- Flexibility
- Superior service

SALES[1]
$Million



Competitive Advantages

- First in Canada in the creditor insurance market for car dealers, with a market share of over 40%
- The only company with an exclusive and direct distribution system that covers all regions in the country
- Low unit costs resulting from economies of scale due to size of the organization

2004 Achievements

- Stable production due to the outstanding performance of the distribution network in spite of a challenging market
- Launch of a competitive dealer participation program
- Continued expansion in the Quebec market
- Increased P&C sales
- Strong cost management

Development Strategy

- Continue expansion in Quebec
- Launch new products
- Continue to seek out acquisitions

Group Insurance – Creditor Insurance

In addition to employee benefit plans, the Group Insurance sector also markets Creditor Insurance products (life, disability and critical illness) to automobile and recreational vehicle dealers. These products are offered through an exclusive and direct distribution network all across Canada through a division of Industrial Alliance *Pacific*, a subsidiary of Industrial Alliance. The parent company, Industrial Alliance, also offers some other types of creditor insurance through financial institutions.

Business Growth

In spite of a challenging environment, the Group Creditor Insurance sector had a solid year in 2004. Sales reached $132.6 million, up by 2% over 2003. 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 and Alberta markets.

This result was achieved in spite of the fact that the automotive market experienced a decline in 2004, with overall light vehicle sales down 4% in Canada. The main achievement of the Group Creditor Insurance sector in 2004 was thus to continue to grow in a difficult market. This growth is attributable to the strength of an exclusive distribution network.

Development Strategy

The strategy to develop the Group Creditor Insurance division with car dealers relies on three key components:

- Continue to grow the creditor business by taking advantage of the Company's strong marketing position in key markets;
- Pursue the expansion across Canada;
- Expand the product portfolio to distribute other non-creditor products that can supplement profitability.

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

- Continue expansion in Quebec – IAP has experienced significant growth in the Quebec market over the last four years, due to the efforts of a talented distribution team, by leveraging the Industrial Alliance brand awareness in the province. Creditor sales have grown from $10 million in 2000 to an estimated $30 million in 2004.
- Launch new products – We will continue to develop new products and improve our current products in the Group Creditor Insurance sector. The dealer reinsurance program will be expanded to include additional P&C products and we will continue to look for opportunities to vertically integrate. The company has been marketing non-creditor products for third party companies for a number of years. We feel that there is a significant opportunity for growth in the sale of non-creditor products and we intend to pursue this vigorously in the future.
- Continue to seek out acquisitions – We intend to continue our efforts to seek out acquisition opportunities in the marketplace.

[1] In the Group Creditor Insurance sector, sales are defined as gross premiums before reinsurance (single premiums).

Group Insurance – Special Markets Group

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

SMG offers mainly accidental death and dismemberment (AD&D) insurance marketed to employers and associations, travel medical and health insurance marketed through distribution partners, student health insurance marketed through student unions, student accident insurance marketed through brokers to school boards, and term life insurance marketed to alumni associations and 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.

Business Growth

SMG had another strong year in 2004 in terms of premium growth. Premium reached $79.7 million, an 11% increase over 2003. SMG saw premium growth in all areas in 2004, with the largest growth coming from student health and travel. Student health insurance grew in part due to new business and in part due to increased rates. AD&D premium grew through initiatives to expand our presence in Quebec, British Columbia and Ontario through new sales representatives, as well as a focus on the sports accident market. The affinity area showed small increases despite intense pressure from competitors.

2004 Achievements

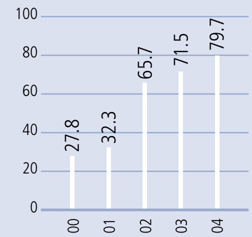
The main achievement for SMG in 2004 was growth of profits. SMG managed to leverage a solid reputation in special risk markets to achieve business growth. It is our ambition to utilize our strong market position to become a leader in this marketplace.

Development 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 opportunities for future development of the division are:

- Enhance the AD&D product to compete more easily with group life and health carriers in the traditional employer markets and also with other special risk markets.
- Expand the student health business.
- Exploit new niche markets. SMG niche markets are those that are not well serviced by traditional insurance product carriers. They are markets that do not necessarily fit the business models of many insurance companies. For us to venture into these markets, they must have room to grow and meet corporate profitability goals.
- Continue to build our presence in Quebec. SMG opened an office in Montreal two years ago and expects to be able to leverage the Industrial Alliance brand along with existing product expertise to increase our market share in the province.

SALES[1]
$Million



Competitive Advantages

- Specialist in the AD&D and special risk markets
- Strong reputation in special markets niches
- Low cost producer

2004 Achievements

- 11% growth in premium in 2004
- Improved profitability over 2003

Development Strategy

- Enhance the AD&D product
- Expand the student health insurance business
- Exploit new niche markets
- Continue to build the Quebec presence

[1] In the Group Insurance Special Markets Group sector, sales are defined as premiums.

Note – Refer to the text on pages 24 and 25 for a detailed description of the Group Pensions line of business.

Specialized service offer adapted to the needs of group pension plan members

- Defined contribution plans
- Defined benefit plans
- Supplemental executive retirement plans
- Wide range of investment options
- Variety of insured annuity types
- Institutional management services

New heights achieved in 2004

- New plan sales
- Recurring premium growth
- Net fund entries
- Funds under management

Group Pensions

The Group Pensions line of business surpassed all its business growth objectives in 2004. The sector continued its momentum in the accumulation product market, recording new highs in both new plan sales and recurring premium growth, as well as making very good progress outside Quebec.

On the insured annuities front, this line of business achieved much higher results than expected, greatly surpassing the objectives set at the beginning of the year. The results for the year, however, are in line with the general trend of the last few years.

Business Growth

Overall sales totalled $461.1 million in 2004, 17% lower than in 2003. This decrease can be explained by the special transfer from National Bank Trust in 2003. Without this transfer, 2004 sales would have been 25% higher than the previous year. During the last five years, Industrial Alliance recorded average annual growth of 16% on its regular operations.

GROUP PENSIONS

SALES [1]

(Millions of dollars, unless otherwise indicated)	2000	2001	2002	2003	2004	Variation 2004 vs. 2003	Variation 5-year CAGR [2]
Accumulation products	553.4	273.1	405.4	446.5	361.3	(19%)	(7%)
CMA business [3]	413.7	172.0	–	–	–	–	–
NBT transfer [4]	–	–	186.6	187.5	–	–	–
Accumulation products, adjusted	139.7	101.1	218.8	259.0	361.3	39%	31%
Insured annuities	63.1	133.9	86.0	109.9	99.8	(9%)	(5%)
Total	616.5	407.0	491.4	556.4	461.1	(17%)	(6%)
Total, adjusted	202.8	235.0	304.8	368.9	461.1	25%	16%

Accumulation Products

Sales of accumulation products totalled $361.3 million in 2004, an increase of 39% excluding the special transfer from National Bank Trust. Two factors contributed to this growth:

- Recurring premiums totalling $192.1 million (a new high), which is 21% higher than the previous year. Recurring premiums include regular member contributions, which are collected from in-force group clients. These recurring premiums make up our core business in this sector, which is the business we are seeking to grow from year to year. In 2004, the growth of this core business resulted from our outstanding new plan sales results and the excellent persistency rates of in-force plans.
- New group transfers representing $169.2 million, a new record for the sector. This corresponds to a 70% increase over the previous year, excluding the transfer from National Bank Trust in 2003.

Insured Annuities

It was also a good year for insured annuities. Although results were 9% lower than the previous year, they were higher than expectations, which were revised in accordance with our desire to maintain our 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.

1 In the Group Pensions sector, sales are defined as premiums.

2 CAGR: Compound Annual Growth Rate.

3 CMA: Canadian Medical Association. The CMA business is excluded from the data because it was transferred to a satellite company, MD Life, which is jointly owned by MD Management (55%) and National Life (45%), a subsidiary of Industrial Alliance.

4 NBT: National Bank Trust. At the end of 2001, the Company signed a strategic agreement with National Bank Trust to manage the pension plans distributed by this company. This agreement resulted in a transfer of $374.1 million in premiums from National Bank Trust to Industrial Alliance. This transfer was carried out on two dates: January 1, 2002 and January 1, 2003.

Funds Under Management

Funds under management surpassed the $4 billion mark to reach $4.1 billion as at December 31, 2004, a 10% increase over the end of the previous year.

GROUP PENSIONS
FUNDS UNDER MANAGEMENT

	As at December 31					Variation	
(Millions of dollars, unless otherwise indicated)	2000	2001	2002	2003	2004	2004 vs. 2003	5-year CAGR[1]
Accumulation products[2]	1,095	1,048	1,333	1,799	2,120	18%	17%
Insured annuities	1,562	1,640	1,652	1,905	1,936	2%	4%
Total	2,657	2,688	2,985	3,704	4,056	10%	10%

- With respect to accumulation products, high net fund entries and strong equity markets pushed funds under management to $2.1 billion as at December 31, 2004, an increase of 18% over 2003. We are particularly satisfied with the net fund entries since this was the first time we surpassed the $100 million mark, ending the year at $175.0 million, almost double the net entries for the previous year. This increase can be explained by improved relations with distributors, better business persistency due primarily to an enhanced product and service offer, the geographic expansion of our distribution sources, and an increase in new plan sales.

GROUP PENSIONS
NET FUND ENTRIES

(Millions of dollars)	2002	2003	2004
Fund entries, excluding NBT	218.8	259.0	361.3
Disbursements	155.7	169.0	186.3
Net fund entries	63.1	89.9	175.0

- With respect to insured annuities, the growth of funds under management was more challenging since the sector makes a lot of payouts to annuitants, putting downward pressure on assets. Given the size of the in-force business block, the sector's sales would have to be higher than they currently are in order to see significant growth in the portfolio's assets.

2004 Achievements

2004 was a very eventful year that included the implementation of a Canada-wide sales team, which could prove to be the cornerstone of our future development, and the continued enhancement of our product and service offer. The primary action plans carried out in 2004 were:

- the expansion of our Canada-wide operations. We opened two new offices in Western Canada, one in Vancouver and one in Calgary, and strengthened the sales teams in the Halifax, Montreal and Toronto offices;
- the introduction of innovative retirement planning software. This software is used to determine how much money a member needs to save in order to ensure a comfortable retirement, thereby meeting one of the new capitalization plan guidelines set out by the regulatory authorities;
- the automatic production of customized enrolment forms by our administration system, thereby meeting the growing demand of large plan policyholders for a service offer adapted to their needs;
- the introduction of new applications on our secure extranet site, including the ability to enrol on-line, thereby facilitating the group plan enrolment process.

2004 Achievements

- Expansion of our Canada-wide operations
- Introduction of innovative retirement planning software
- Automatic production of customized enrolment forms
- New extranet applications

1 CAGR: Compound Annual Growth Rate.

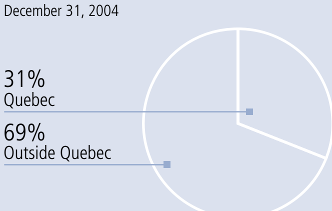
2 Excluding Canadian Medical Association (CMA) business for 2000 and 2001 (see note 3 on page 56).

Development Strategy

- Focus on accumulation products
- Canada-wide development
- Focus on medium-sized business market
- Growth of distribution networks
- Enhanced product and service offer

ACCUMULATION PRODUCTS
ASSETS UNDER MANAGEMENT BY REGION
December 31, 2004

INSURED ANNUITIES
ASSETS UNDER MANAGEMENT BY REGION
December 31, 2004



Factors that set us apart

- Accessibility
- Flexibility
- Innovation
- Service

Development Strategy

Our development strategy consists of the following five components:

- Focus on accumulation products – Though we will not neglect the insured annuities market, we will continue to focus on the accumulation product market in 2005.
  - We are focusing on the accumulation product market because this is a growing market (due in part to the aging of the population) with low capital requirements and in which the Company has considerable expertise, both with full service products and institutional management. With respect to institutional management, the acquisition of BLC-Edmond de Rothschild Asset Management Inc. at the end of 2004 enabled us to grow our business volume in this segment, which we want to continue developing.
  - With respect to insured annuities, Industrial Alliance is one of the top three insurers in Canada. For several years now, the Company has sold a little over a quarter of all new business in this market. Although there are not a lot of players in this market, insured annuities have high capital requirements, primarily due to the long-term mortality risks. Our objective in this market is to preserve the gains we have made while seeking to achieve a good balance between our growth and profitability requirements.
- Canada-wide development – Currently, 85% of the Company's accumulation product assets come from Quebec, while 69% of insured annuity assets come from outside Quebec. Our objective for the next few years is therefore to continue growing our business outside Quebec, particularly for accumulation products, so we can be recognized as a Canada-wide player in this market, as we are in the insured annuities market. We are already heading in the right direction, because in 2004, 35% of new plans sold for accumulation products came from outside Quebec.
- Focus on medium-sized business market – We will continue 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 as well. Industry consolidation has created a shortage of insurers in the market, and we plan to continue to offer potential clients and distributors another alternative for purchasing their products.
- Growth of distribution networks – In order to increase our pool of business opportunities, which has already grown considerably, we also want to increase the number of producers Canada-wide with whom we have a preferred business relationship. We want distributors to recognize us as a "partner they can trust".
- Enhancement of product and service offer – Lastly, we will continue to enhance our product and service offer, particularly in terms of technology tools for retirement planning, Internet access and the range of funds offered.

From a marketing standpoint, we strive to stand out from our competitors by focusing on four key elements: accessibility, flexibility, innovation and service.

- Accessibility – For us, accessibility has two components: geographic accessibility, whereby we seek to make our products available throughout Canada, and accessibility in terms of our availability to the distribution networks.
- Flexibility and innovation – For us, the words "flexibility" and "innovation" mean being a service provider that is attentive to its clients' needs, and one that is ready and willing to adapt its product and service offer to meet specific needs. Some of the innovations that demonstrate our expertise and our desire to adapt to client needs are: dynamic asset management services, personalized investment solutions, tools favouring increased integration of the assets and liabilities of defined benefit plans, as well as training applications for market intermediaries operating in our sector and applications for pension plan members.
- Service – Lastly, our view of service means having specialized sales teams that are able to work with the various distribution networks quickly and efficiently to promote our products, assist brokers in the sales process, and meet the needs of plan sponsors and members. This also means supporting these sales teams with administrative teams that have the skills and experience to provide fast, high-quality service (Industrial Alliance has a very high staff retention rate).

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

Investments

The Company's investment activities are divided into three sectors:

- The General Fund and Segregated Fund Investments sector. This sector is in charge of managing bonds, stocks, derivative products and short-term investments, asset-liability matching, establishing interest rates for products offered by the Company, as well as segregated fund management;
- The Mortgage Loan sector. This sector is in charge of underwriting and managing residential and commercial mortgage loans;
- The Real Estate Investment sector. This sector is in charge of the development and management of the Company's real estate holdings.

The investment operations are combined under a common leadership for the Industrial Alliance Group. However, the managers are based in three cities: Quebec City, Toronto and Vancouver. This structure makes optimal use of resources and has all companies in the Group benefit from the knowledge and expertise developed by each one.

Note – Refer to the text on page 26 for a description of the Investment sector and some of the Company's main investment policies.

Asset Growth and Composition

Assets under management and under administration made a substantial jump in 2004, reaching $28.5 billion as at December 31, 2004, a 46% increase for the year. The main drivers behind this growth during the year were: the purchase of BLC-Edmond de Rothschild Asset Management Inc. ($1.8 billion in assets), the acquisition of a majority interest in FundEX Investments Inc. ($4.3 billion in assets), strong growth of premium income, the good stock market performance and solid growth of the wealth management subsidiaries, including Investia Financial Services Inc. and Industrial Alliance Securities Inc., whose assets grew by some $450 million each during the year.

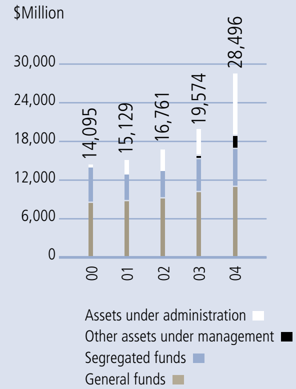
46% asset growth in 2004

Today, the Company's assets are made up of four major categories:

- general fund assets under management, which totalled $11.1 billion as at December 31, 2004, up 7% compared to December 31, 2003 (average annual growth of 3% in the last five years);
- segregated fund assets, which totalled $5.9 billion, which corresponds to 17% growth during the year (average annual growth of 24% in the last five years);
- other assets under management, which totalled $1.9 billion as at December 31, 2004, compared to $94 million as at December 31, 2003. These assets include the assets of the Company's fund management subsidiaries, whose operations began at the beginning of 2003;
- assets under administration, which totalled $9.6 billion as at December 31, 2004[1], a 133% increase in 2004 (the Company did not have any assets under administration five years ago).

GROWTH OF ASSETS

$Million



1 Assets under administration include the assets of the trust company (Industrial Alliance Trust Company), third party assets which are administered by the mutual fund brokerage firms (Investia Financial Services Inc. and FundEX Investments Inc.), the assets of a satellite company, MD Life, managed by Industrial Alliance, and the assets of the securities company (Industrial Alliance Securities Inc.).

Net Investment Income

Net investment income totalled $696.9 million in 2004, compared to $677.3 million for 2003, an increase of $19.6 million. The portion of this income attributable to Universal Life policy index accounts (and which therefore does not impact the Company's profit) decreased by $21.2 million. This means that the investment income affecting the Company's net income and matching products other than the Universal Life policy, grew by $40.8 million in 2004. A good portion of the growth of investment income is explained by the increase in assets and the stock market upturn.

NET GENERAL FUNDS INVESTMENT INCOME

(Millions of dollars)	2003	2004	Variation
Net investment income	677.3	696.9	19.6
Minus: Amounts attributable to Universal Policy index accounts	56.9	35.7	(21.2)
	620.4	661.2	40.8

Distribution of Investments by Category of Assets

In accordance with sound asset management principles, the Company's investments are well diversified among issuers and operating sectors, as well as geographically. The investments related to the Company's insurance and annuity operations are mostly concentrated in fixed-income securities (particularly bonds and mortgage loans). The assets related to the Company's surplus are essentially used for long-term growth and the optimization of the after-tax return.

80.7% of investments are made up of fixed-income securities

Hence, at the end of 2004, 57.2% of the Company's investments were invested in bonds and 23.5% in mortgage loans, for a total of 80.7% in fixed-income securities. The proportion of fixed-income securities has remained relatively stable over the last few years.

Excellent overall quality of investments

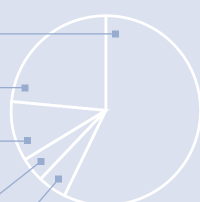
Quality of Investments

The overall quality of investments remains excellent. In fact, in several regards it even improved in 2004, owing to the disposition of a defaulted bond and the settlement of three defaulted mortgage loans, one of which represented approximately 50% of the mortgage arrears. Almost all quality indices improved in 2004.

Hence, gross impaired investments (excluding insured loans) decreased from $60.5 million as at December 31, 2003 to $47.6 million as at December 31, 2004. There were provisions for 82.0% of gross impaired investments as at December 31, 2004 (67.3% as at December 31, 2003). Net impaired investments, excluding insured loans, decreased from $19.8 million as at December 31, 2003 to $8.5 million as at December 31, 2004. Net impaired investments represented just 0.08% of total investments as at December 31, 2004, compared with 0.20% as at December 31, 2003.

Net impaired investments are made up of bonds and conventional mortgage loans that are three or more months in arrears, restructured loans and other defaulted investment securities, taking into account any provisions set up in consideration of these assets.

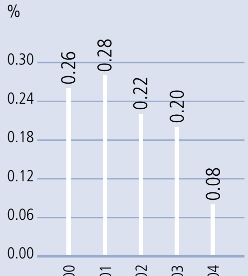
COMPOSITION OF INVESTMENTS
As at December 31, 2004



OVERALL INVESTMENT QUALITY INDICES
(Excluding Insured Loans)

(Millions of dollars, unless otherwise indicated)	2000	2001	2002	2003	2004
Gross impaired investments	35.7	39.8	60.4	60.5	47.6
Provisions for losses	14.3	15.7	41.1	40.7	39.1
Net impaired investments	21.4	24.1	19.3	19.8	8.5
Provisions as a % of gross impaired investments	39.9%	39.1%	68.0%	67.3%	82.0%

NET IMPAIRED INVESTMENTS
AS A PERCENTAGE OF INVESTMENTS



Bond Portfolio

In accordance with the rules defined in the investment policies, the Company invests in bonds whose credit rating is BBB low or higher when they are acquired. These ratings are based on the credit rating assigned by a recognized rating agency. In the event no evaluation is available from a recognized rating agency, the Company uses an internal method to evaluate the quality of the securities in question. The Company also invests in bonds issued through private placements.

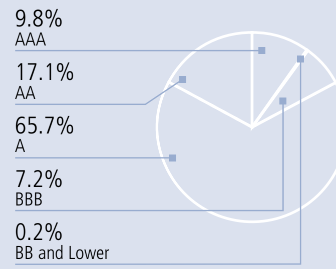
No bonds defaulted during the year and the bond portfolio continues to be of very good quality. As at December 31, 2004, 92.6% of the bond portfolio was made up of quality A or higher bonds. Bonds rated BB and lower (0.2% of the portfolio) represented just $14.3 million of a $6.1 billion bond portfolio.

The Company also invests in bonds issued through private placements. These bonds generally offer higher returns, greater access to information from issuers and more favourable conditions than those comparable securities placed with public companies. However, bonds issued through private placements do not benefit from the same level of liquidity.

No bonds defaulted during the year

BONDS BY CREDIT RATING

As at December 31, 2004



DISTRIBUTION OF THE BOND PORTFOLIO
BY CATEGORY OF ISSUER

(In percent, unless otherwise indicated)	2000	2001	2002	2003	2004
Book value of bonds ($million)	3,874.5	4,193.2	4,686.4	5,527.9	6,074.5
Distribution by category of issuer					
Governments [1]	51.9	52.4	55.1	59.2	64.5
Municipalities	1.7	1.2	2.5	1.8	1.7
Public companies	34.1	32.9	28.2	26.0	22.4
Private companies	12.3	13.5	14.2	13.0	11.4
Total	100.0	100.0	100.0	100.0	100.0
Delinquency rate	0.00	0.03	0.03	0.03	0.02

Mortgage Loans Portfolio

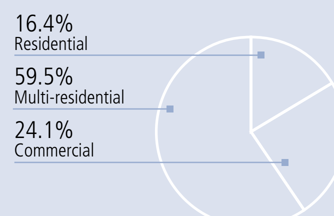
The mortgage loan portfolio is of very good quality, even better than as at December 31, 2003. The delinquency rate of the mortgage loan portfolio improved considerably during the year, from 0.86% of the portfolio as at December 31, 2003 to 0.32% as at December 31, 2004. As previously indicated, the favourable settlement of a commercial mortgage loan greatly contributed to this improvement. The data on the delinquency rate takes into account insured and uninsured loans. According to a survey by the Canadian Life and Health Insurance Association (CLHIA), the delinquency rate for the industry was 0.16% at the end of 2004. Of the amounts in arrears, 81.0% are related to insured loans (42.2% in 2003). For uninsured loans, the amount is limited to 75% of the value of the property when the loan is granted.

Virtually all mortgage loans are secured by first mortgages. Furthermore, as at December 31, 2004, 52.8% of the portfolio was made up of insured loans and 75.9% of the loans were secured by single-family or multi-unit residential properties.

Greatly improved mortgage portfolio

MORTGAGE LOANS
BY TYPE OF PROPERTY

As at December 31, 2004



DISTRIBUTION OF THE MORTGAGE LOAN PORTFOLIO
BY TYPE OF PROPERTY AND OTHER QUALITY INDICES

(In percent, unless otherwise indicated)	2000	2001	2002	2003	2004
Book value of mortgage loans ($million)	2,729.6	2,660.4	2,526.5	2,490.4	2,491.8
Distribution by type of loan					
Insured loans	39.3	40.9	45.3	48.6	52.8
Conventional loans	60.7	59.1	54.7	51.4	47.2
Total	100.0	100.0	100.0	100.0	100.0
Delinquency rate					
Insured loans	0.48	0.27	0.80	0.75	0.50
Conventional loans	0.08	0.62	0.69	0.97	0.13
Total	0.23	0.48	0.74	0.86	0.32
Proportion of delinquent loans that are insured	80.4	23.3	49.0	42.2	81.0

[1] Government issuers and those with a direct or indirect equivalent guarantee, excluding municipal issuers.

Stock Portfolio

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 management strategy for the stock portfolio tends to maximize the after-tax return through investments in preferred shares, high dividend shares, market indices and segregated funds. The Company favours a policy of diversification by industrial sector and by issuer to limit its vulnerability to risk and to participate in the growth of all primary economic sectors.

DISTRIBUTION OF THE STOCK PORTFOLIO
BY CATEGORY OF STOCK

(In percent, unless otherwise indicated)	2000	2001	2002	2003	2004
Book value of the stock portfolio ($million)	707.9	703.2	720.1	930.3	1,081.1
Distribution by category of stock					
Common shares	4.6	7.4	6.1	4.1	4.1
Preferred shares	31.6	29.8	32.4	24.8	21.6
Market indices	13.6	19.3	15.3	11.1	12.0
Investment fund units	50.2	43.5	46.2	60.0	62.3
Total	100.0	100.0	100.0	100.0	100.0

Stock market fluctuations have very little direct impact on the Company's net income, since 66.4% of the stock and market indices portfolio was composed of assets that are used for matching the Company's very long-term commitments and Universal Life insurance policies.

Note that stock market fluctuations have very little direct impact on the Company's net income. In fact, 66.4% of the stock and market indices portfolio, which totalled $1,081.1 million at the end of 2004, 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 virtually no impact on the Company's income. Furthermore, 18.4% of the portfolio is made up of preferred shares backing capital.

Real Estate Portfolio

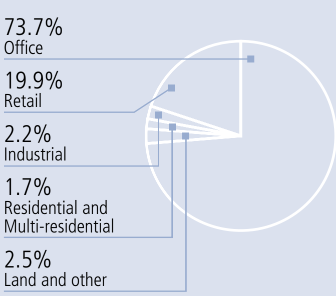
As at December 31, 2004, the book value of real estate totalled $444.5 million, which represented 4.2% of total investments. According to Company policy, the real estate portfolio cannot exceed 5% of the Company's total investments.

95.2% occupancy rate of the real estate portfolio as at December 31, 2004

The occupancy rate of the Company's real estate portfolio, which was already excellent, improved during the year, increasing from 93.9% as at December 31, 2003 to 95.2% as at December 31, 2004. The Company's occupancy rate compares very favourably with that of commercial properties in large Canadian cities. Office buildings account for almost three quarters of real estate investments.

REAL ESTATE BY TYPE

As at December 31, 2004



OCCUPANCY RATE OF THE REAL ESTATE PORTFOLIO

(In percent, unless otherwise indicated)	2000	2001	2002	2003	2004
Book value of real estate ($million)	392.3	424.9	436.0	425.7	444.5
Occupancy rate	96.7	96.3	92.1	93.9	95.2

Other Investments

The category "other investments" (4.9% of the investment portfolio) is made up of cash and cash equivalents, policy loans (primarily insurance contracts, except for term insurance contracts, allow policyholders to obtain a loan on the surrender value of their contracts), short-term investments and other investments.

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.

Very strict matching: difference in duration of 0.12 years

As at December 31, 2004, the spread between the duration of Company assets and liabilities was 0.12 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.

Derivative Products (Swaps)

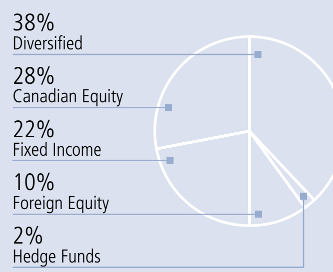
The Company holds swap contracts that are calculated according to a notional amount of $438.1 million as at December 31, 2004 ($396.1 million as at December 31, 2003). These agreements are used for improving the return and managing financial risks, in particular those associated with interest rate and market value fluctuations.

The maximum credit risk, which corresponds to the amounts payable to us by the various counterparties, was $11.1 million as at December 31, 2004 ($9.6 million as at December 31, 2003). 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 $18.6 million as at the same date ($17.7 million as at December 31, 2003). All counterparties with whom we have signed such agreements are high quality financial institutions.

All counterparties with whom the Company has signed agreements are high quality financial institutions.

INVESTMENT FUNDS BY CATEGORY

As at December 31, 2004



Investment Fund Growth and Performance

The Company's segregated fund assets totalled $5.9 billion as at December 31, 2004. These assets were made up of investment funds ($5.4 billion) and separate funds and others ($0.5 million). The following section covers investment funds only.

Industrial Alliance offers a wide variety of investment funds designed for its individual and group clients. As at December 31, 2004, Group Pensions offered 50 funds, while Individual Annuities offered 43. Even though certain funds are offered to Individual Annuity and Group Pension clients alike, given the specific needs of these different clients, certain funds are specific to each sector.

In 2004, Individual Annuities and Group Pensions consolidated their investment fund offering. Several funds were added and others were closed. These changes enhanced the quality and depth of the service offering. The two fund families offer excellent diversification in terms of asset classes, management styles and geographic regions. Consolidation efforts will continue in 2005, primarily among the fund families of our insurance subsidiaries that are no longer offered for sale.

Taking into account all Company funds, including those that are offered for sale and those that have been withdrawn, but are still active, our in-house managers are responsible for managing 41 funds, representing 72% of investment fund assets under management. The expertise of our in-house team is concentrated on fixed-income securities and Canadian equity. Our external managers are responsible for managing a total of 67 funds, representing 28% of investment fund assets under management. Industrial Alliance has strategic alliances with some 20 external managers.

72% of investment fund assets ($3.8 billion) are managed by our in-house managers.

Net investment fund assets grew from $4,486 million as at December 31, 2003 to $5,412 million as at December 31, 2004, a 21% increase. The good performance of the financial markets and a strong increase in sales accelerated asset growth in 2004. Strong sales in 2004 resulted in net fund entries of $533 million.

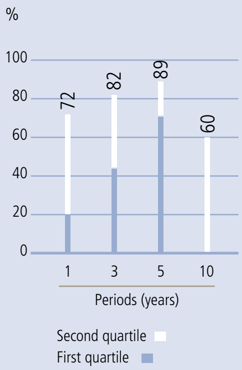
VARIATION OF NET INVESTMENT FUND ASSETS

(Millions of dollars)	
Balance as at December 31, 2003	4,486
Net unit issues	533
Operating expenses	(112)
Net investment income	505
Balance as at December 31, 2004	5,412

In an environment of good returns for the Canadian stock and bond markets, Industrial Alliance funds had an excellent performance in 2004. In fact, 49 funds, representing 72% of net investment fund assets, generated an above-median one-year gross return in 2004. As for the in-house managed funds, 75% of the net assets of these funds provided an above-median return.

72% of investment fund assets generated an above-median one-year gross return in 2004.

RELATIVE PERFORMANCE
OF INVESTMENT FUNDS
GROSS RETURN
As at December 31, 2004



RELATIVE PERFORMANCE OF INVESTMENT FUNDS
GROSS ONE-YEAR RETURN

As at December 31, 2004	Above-median yield	Below-median yield	Funds in existence less than 1 year
Number of funds	49	47	12
Assets ($million)	3,706	1,462	87
As a percentage of assets	72%	27%	1%

Even when considered over longer periods, the performance of our funds remains very high. Over 82% of the assets in our funds recorded an above-median performance over a three-year period, 89% over a five-year period and 60% over a ten-year period.

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. The returns of the mutual funds offered by our two mutual fund companies, Industrial Alliance Mutual Funds Inc. and Industrial Alliance Fund Management Inc., can also be found in their respective financial reports.

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.

Objectives

- Protection of policyholders' interests
- Optimization of value for 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.

Management 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.

Guidelines that define:

- Company's position regarding the risks it may be exposed to
- Scope and nature of the risks it is prepared to take
- Establishment of risk tolerance limits
- Various risk control and monitoring programs

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 claims adjudication 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.

Management of Product Design and Pricing Risk

- Establishment of standards and guidelines to ensure adequate pricing based on the assumed risks

For certain types of contracts, all or part of this risk may be shared with or transferred to the policyholder through a dividends and returns policy, or through the fact that the Company can adjust the premiums or future benefits 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.

Management of Underwriting and Claims Adjudication Risk

- Establishment of the Company's retention limits
- Use of reinsurance for excess risk

Underwriting and Claims Adjudication Risk – Underwriting and claims adjudication 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 claims adjudication 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 external 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.

Management of Credit Risk Related to Reinsurance

- Analysis and monitoring of financial soundness of reinsurers

Credit Risk Related to Reinsurance – Even though the Company relies on reinsurance to manage the underwriting and claims adjudication 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.

Management of Interest Rate Risk

- Strict asset and liability matching objective

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.

The following table presents the impact that interest rate decreases would have on the Company's net income for the insurance and annuity portfolios. The impact was estimated based on an immediate and parallel decrease of 100 basis points from the assumed interest rates across the entire yield curve. The estimate assumes that the Company is taking certain compensatory measures to alleviate the impact of interest rate decreases.

SENSITIVITY TO INTEREST RATE FLUCTUATIONS

	Impact on Annual Net Income	
	Insurance Portfolios	Annuity Portfolios
Temporary decrease of 1% in interest rates, for one year	($5.5 million)	Negligible
Permanent decrease of 1% in interest rates	($55.0 million)[1]	$1.5 million

The Company believes that a 1% increase in interest rates would have a similar impact to a 1% decrease, but with an opposite effect.

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 following table presents the impact that a decrease in the stock markets would have on net income. The impact was estimated based on an immediate 10% drop in the stock markets for a period of one year. The estimate assumes that the Company is taking certain compensatory measures to alleviate the impact of stock market decreases.

SENSITIVITY TO STOCK MARKET FLUCTUATIONS

	Impact on Annual Net Income
Decrease of 10% in the stock markets, for one year	($8.0 million)

The Company believes that a 10% increase in the stock markets would have a similar impact to a 10% decrease, but with an opposite effect.

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.

[1] The impact on the net income is slightly higher than last year due to the growth of the business block.

Management of the Risk of a Stock Market Downturn

- Establishment of quantitative and qualitative limits for the use of shares

Management of Foreign Currency Risk

- No currency risk assumed

Management of Credit Risk

- Sound diversification of counterparties or debtors
- Relatively high quality of counterparties or debtors
- Limited exposure to the same issuer

Management of Liquidity Risk

- Strict matching of assets with liabilities
- Strict management of cash resources
- Holding a good proportion of assets in marketable instruments

Management of Insolvency Risk

- Compliance with regulatory authorities' solvency standards
- Sensitivity analyses of the Company's future solvency

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 for the 2004 to 2009 period, 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.

Management of Compliance Risk

- Implementation of procedures to comply with any new legislation or guidelines and to analyze and process the execution of contracts.
- Compliance with sound business and financial practices requirements

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 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, which then submits a report to the Board of Directors. The evaluation reports of each division are examined by Internal Audit, and a final report is tabled each year to the regulatory authorities in the prescribed format.

Management of Operational Risk

- Appropriate and effective internal controls
- Business resumption plan
- Data processing risk management plan

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 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, in particular the Audit Committee, 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

Across the country, Industrial Alliance Group companies share the same sense of commitment and responsibility towards their employees and the communities they serve.

Following is an overview of some of the programs and main achievements of Industrial Alliance Group companies in the area of human resources, community commitment and measures taken to protect the environment.

The Industrial Alliance Group is composed of three life 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 various other companies (please see IAG's organization chart on pages 12 and 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. Each Group company has therefore implemented several programs and policies over the years in order to provide employees with a work setting that fosters growth, enrichment and personal development.

Number of Employees

At the end of 2004, Industrial Alliance Group employees numbered 2,626, which is 123 more than at the end of the previous year. Since 2000, the number of employees working for the Group grew by 492. This increase bears witness to the pronounced growth of the Industrial Alliance Group over the last few years.

Training

Industrial Alliance Group companies offer a number of training programs that allow employees to continue perfecting their skills. These programs, which are available both in the workplace and through recognized educational institutions, are offered in all areas of the insurance sector as well as in other fields, such as learning a second language, mastering the use of business software, retirement planning, and so on.

In Quebec, Industrial Alliance adheres to the *Act to foster the development of manpower training* and invests 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

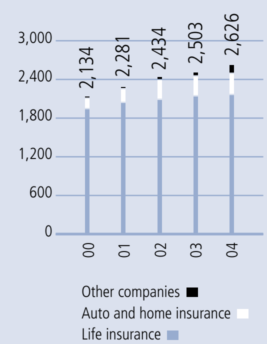
To favour internal mobility, Industrial Alliance has set up an internal job posting system that lists various Company positions as they become available and for which all employees are eligible to apply.

Through a corporate incentive and recognition program, Industrial Alliance also encourages employees to come up with ways to improve their work methods.

Employment Equity and Occupational Health and Safety

All Industrial Alliance Group companies rigorously apply federal and provincial laws pertaining to the integration of women, visible minorities, aboriginal peoples and the handicapped in the workplace, as well as legislation that regulates occupational health and safety.

NUMBER OF EMPLOYEES



Number of employees: the Industrial Alliance Group had 2,626 employees at the end of 2004, an increase of 492 over the last four years

Training: Industrial Alliance Group companies offer various training programs in many sectors:

- Insurance and financial services
- Second languages
- Business software
- Retirement planning
- Etc.

Industrial Alliance Group companies favour:

- Internal mobility through an internal job posting system
- The participation of employees in improving work methods through a corporate incentive and recognition program
- Employment equity for women, visible minorities, aboriginal peoples and the handicapped
- The quality of life of its employees through a flexible work schedule and adjustable work hours

Corporate bonus: the Group's excellent financial results allowed the Company to give eligible employees a bonus equivalent to 4% of their base salary, the maximum percentage they may receive. The corporate bonus is based on the shareholder net income.

Donations: Industrial Alliance is a member of the Imagine Program and donates at least 1% of its pre-tax profits to community organizations. Major donations have been made to organizations in three principal sectors:

- Health
- Education
- Social services

Quality of Life of Employees

In order to add to the quality of life of its workforce, employees in Montreal, Toronto and Vancouver enjoy a flexible work schedule. Head Office employees in Quebec City have adjustable work hours, which allows 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 eligible employees of the Group's three life companies are also entitled to receive a corporate bonus according to the level of profits earned by the Group over the course of the year. The corporate bonus is based on the shareholder net income registered by all Group companies (Industrial Alliance's consolidated earnings). In 2004, the Group's excellent financial results allowed the Company to give employees a bonus equivalent to 4% of their base salary, which is the maximum percentage they may receive.

Community Commitment

Industrial Alliance Group companies 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 2004, the Company provided support to a number of organizations, primarily in the health, education and social service sectors.

In the health sector, Industrial Alliance continued to fund the activities of the Industrial Alliance Chair in Leukemia Research at the University of Montreal, and through Industrial Alliance *Pacific*, those of the Leukemia & Lymphoma Society of Canada. Numerous donations were also made by both companies to various organizations in the health sector, including the Canadian Cancer Society, the Enfant-Jésus Hospital Foundation, the Montreal Heart Institute and the Sainte-Justine Hospital Foundation, as well as to the Vancouver General Hospital for research programs on depression and prostate cancer. The majority of these donations are made through a periodic donation program and therefore repeated each year for a period ranging from three to ten years.

National Life continued to lend its support to several Canadian hospitals and various organizations such as the Canadian Heart and Stroke Foundation, the Canadian Diabetes Association and the Multiple Sclerosis Society of Canada. The company also reiterated its support to the Easter Seal Society telethon, which comes to the aid of children with physical disabilities.

In the education sector, Industrial Alliance continued to finance various university foundations, including the Laval University Foundation, the University of Quebec Foundation and the Richard Schmeelk Foundation, an organization that allows Canadian students to study in an official language other than their mother tongue. Industrial Alliance equally continued to support Montreal's École Polytechnique and École des Hautes Études Commerciales, both of which are affiliated with the University of Montreal. Industrial Alliance *Pacific* also made a major donation to Simon Fraser University in British Columbia for its MBA program.

In the social services sector, all Industrial Alliance Group employees take part in the United Way's Canadian campaign. In 2004, Group companies raised more than $395,000 across the country as part of this campaign.

In Quebec City, the generosity and high level of participation by Head Office employees allowed Industrial Alliance to be awarded the Platinum certificate for the fifth consecutive year. This in turn qualified the Company to receive the Diamond certificate, which is bestowed upon companies that receive the Platinum certificate five years in a row and the highest honour that the United Way can award a supporting company. In addition to financial support provided through individual and corporate donations, Industrial Alliance also releases one of its Head Office employees each year for several months in order to help organize the United Way's campaign in the Quebec City area.

Industrial Alliance equally gave its support to the Moncton Youth Residences, an organization in New Brunswick that provides quality care and counselling to Moncton area young people between the ages of 10 and 19 who are experiencing social, emotional or behavioural difficulties.

National Life once again took part in the Meals on Wheels Program organized by Mid-Toronto Community Services. Through this program, a different team composed of over forty volunteer employees deliver meals to senior citizens and needy adults every week.

Industrial Alliance *Pacific* gave its support to the Volunteer Vancouver Leadership Award, which recognizes the contributions of individuals who demonstrate exceptional leadership in the non-profit sector.

Sponsorships

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

Sponsorships: Industrial Alliance primarily finances family-oriented events.

In British Columbia, Industrial Alliance *Pacific* continued to lend its support to the Vancouver Art Gallery in 2004. On a musical note, the company also provided support to the Vancouver Symphony Orchestra and the Vancouver Opera in addition to contributing to the success of Festival Vancouver, a fourteen day celebration featuring various musical pieces interpreted by professional musicians from around the world. Industrial Alliance *Pacific* also gave its support to the Vancouver Aquarium and to the BC Special Olympics, an event that allows the intellectually challenged to excel through athletic competitions.

In Ontario, National Life encouraged visual arts through its support to the Art Gallery of Ontario and the Royal Ontario Museum Foundation. It also offered its support to the performing arts by financing the Stratford Festival, the Young Peoples' Theatre and the Famous People Players, a theatre company featuring the talents of intellectually challenged actors. National Life also contributed to the Community Youth sponsorship program, which helps children of employees undertake academic or athletic pursuits, and the Take Our Kids to Work Program, which encourages young people to explore careers in the financial services industry.

Also in Ontario, Industrial Alliance was the title sponsor of the 10th edition of the Industrial Alliance KiteFest, an annual charity event that attracts over 75,000 festival-goers to the greater Toronto area.

In Quebec, Industrial Alliance renewed its partnership with the Quebec Firefighters Foundation for Major Burn Victims by taking part in various fundraising activities conducted in 2004.

On the artistic scene, Industrial Alliance renewed its partnership agreement with the Quebec Symphony Orchestra and the Domaine Forget International Festival in the presentation of their Jazz Concert Series. Industrial Alliance was also the title sponsor of Pinocchio, a multifaceted show on ice that was presented to thousands of families across the province of Quebec.

Recognition Programs

Through an internal financial support program, the Industrial Alliance Group also supports all employee initiatives and volunteer work aimed at collecting donations from colleagues for recognized humanitarian organizations.

Preserving the Environment

In April 2004, Industrial Alliance adopted 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.). The policy also promotes the use of products made from recycled materials (such as hand towels, bathroom tissue, envelopes, etc.) as well as reusing and recycling the supplies it uses (various types of paper and cardboard, aluminium, printer cartridges, computer hardware, etc.).

Environment: in April 2004, Industrial Alliance adopted a corporate environmental policy designed to ensure the sound use of Company buildings and property. The policy also promotes the use of products made from recycled materials as well as reusing and recycling supplies.

Industrial Alliance has also undertaken consultations with a specialized firm (Roche, a member of the Shaw Group) aimed at obtaining a recognized Environmental Management System (EMS) certification. Industrial Alliance currently satisfies two of the three criteria necessary to obtain certification and is preparing to take measures in order to satisfy the third.

Within a larger context, given Industrial Alliance's concern for the physical and human environment in which it continues to evolve, the Company is currently preparing a report on sustainable development. This document, which will be revised annually, will present an overview of the steps 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

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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 judgement and estimates as their final determination is dependent 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 material 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 arrangements 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* (Québec), 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 external 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
President and Chief Executive Officer
Québec, February 9, 2005

Appointed Actuaries' Report

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

We have valued the policy liabilities of **Industrial Alliance Insurance and Financial Services Inc.** for its consolidated balance sheets as at December 31, 2004 and 2003 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 our opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations. The results are also fairly presented in the consolidated financial statements.

Michel Sanschagrin
Fellow of the Canadian Institute of Actuaries
(for the year ended December 31, 2003)

Denis Ricard
Fellow of the Canadian Institute of Actuaries
(for the year ended December 31, 2004)

Québec, February 3, 2005

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, 2004 and 2003 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, 2004 and 2003 and the results of its operations, 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 3, 2005

Consolidated Income Statements

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

	2004	2003
	$	$ (Restated) (note 4)
Revenues		
Premiums (note 27)	**2,852.4**	2,566.7
Net investment income (note 8)	**696.9**	677.3
Fees and other revenues	**147.5**	107.7
	3,696.8	3,351.7
Policy benefits and expenses		
Change in provisions for future policy benefits	**517.4**	540.9
Payments to policyholders and beneficiaries	**1,277.9**	1,216.5
Net transfer to segregated funds	**929.7**	710.2
Dividends, experience rating refunds and interest on amounts on deposit	**44.9**	49.9
Commissions	**369.2**	324.9
Premium and other taxes	**46.8**	43.0
General expenses (notes 7, 9 and 14)	**257.8**	237.4
Net financing expenses (notes 18 and 19)	**16.3**	21.4
Minority interest (note 20)	**(0.1)**	—
	3,459.9	3,144.2
Income before income taxes	**236.9**	207.5
Income taxes (notes 5 and 10)	**(77.7)**	(67.2)
Net income	**159.2**	140.3
Net income attributable to participating policyholders	**4.1**	3.4
Net income attributable to shareholders	**155.1**	136.9
Earnings per share (note 22)		
basic (in dollars)	**3.91**	3.52
diluted (in dollars)	**3.89**	3.47

Consolidated Balance Sheets

As at December 31 (in millions of dollars)

	2004 $	2003 $ (Restated) (note 4)
Assets		
Invested assets (note 12)		
Bonds	**6,074.5**	5,527.9
Mortgages	**2,491.8**	2,490.4
Stocks	**1,081.1**	930.3
Real estate	**444.5**	425.7
Policy loans	**162.7**	154.9
Short-term investments	**83.0**	24.7
Cash and cash equivalents	**252.9**	280.1
Other invested assets	**18.8**	91.5
	10,609.3	9,925.5
Goodwill (note 13)	**125.7**	56.5
Other assets (note 14)	**315.5**	325.6
	441.2	382.1
Total general fund assets	**11,050.5**	10,307.6
Segregated funds net assets	**5,913.6**	5,042.2
Liabilities		
Policy liabilities (note 15)		
Provisions for future policy benefits	**8,157.7**	7,667.4
Provisions for dividends to policyholders and experience rating refunds	**50.2**	44.4
Benefits payable and provisions for unreported claims	**121.7**	136.1
Policyholders’ amounts on deposit	**164.1**	145.6
	8,493.7	7,993.5
Other liabilities (note 16)	**645.3**	580.2
Deferred net realized gains (note 17)	**380.7**	347.2
Subordinated debentures (note 18)	**150.0**	135.0
Other debts (note 19)	**150.0**	150.0
Participating policyholders’ account	**17.3**	13.2
Equity		
Share capital (note 21)	**458.1**	457.0
Contributed surplus	**9.5**	6.5
Retained earnings	**751.7**	627.5
Currency translation account	**(5.8)**	(2.5)
	1,213.5	1,088.5
Total general fund liabilities and equity	**11,050.5**	10,307.6
Segregated funds liabilities	**5,913.6**	5,042.2

On behalf of the Board,

Yvon Charest, Director

Michel Gervais, Director

Consolidated Participating Policyholders' Account

Years ended December 31 (in millions of dollars)

	2004 $	2003 $ (Restated) (note 4)
Participating policyholders' account at beginning of year	**64.8**	59.5
Restatement of the transfer amount of the participating policyholders' account	**(51.6)**	(49.7)
Participating policyholders' account restated at beginning of year	**13.2**	9.8
Income for the year	**8.3**	8.6
Dividends	**(3.6)**	(4.6)
Transfer to the shareholders' account	**(0.6)**	(0.6)
Net income attributable to participating policyholders	**4.1**	3.4
Participating policyholders' account at end of year	**17.3**	13.2

Consolidated Contributed Surplus

Years ended December 31 (in millions of dollars)

	2004 $	2003 $
Contributed surplus at beginning of year	**6.5**	3.3
Current year contribution for the stock option plan (note 23)	**3.2**	3.2
Stock options exercised (note 23)	**(0.2)**	—
Contributed surplus at end of year	**9.5**	6.5

Consolidated Shareholders' Retained Earnings

Years ended December 31 (in millions of dollars)

	2004 $	2003 $ (Restated) (note 4)
Retained earnings at beginning of year	**575.9**	470.2
Restatement of the transfer amount of the participating policyholders' account	**51.6**	49.7
Retained earnings restated at beginning of year	**627.5**	519.9
Net income attributable to shareholders	**155.1**	136.9
Issue costs of IATS, net of taxes (note 19)	—	(1.8)
Cancellation of common shares issued at demutualization (note 21)	**1.7**	—
Dividends	**(32.6)**	(27.5)
Retained earnings at end of year	**751.7**	627.5

Consolidated Cash Flows Statements

Years ended December 31 (in millions of dollars)

	2004	2003
	$	$
Cash flows from operating activities		
Net income	**159.2**	140.3
Items not affecting cash and cash equivalents:		
Change in provision for future policy benefits	**517.4**	748.9
Share of net results of significantly influenced entity	**(1.3)**	(1.4)
Amortization of realized and unrealized (gains) losses	**(74.9)**	(76.8)
Amortization of premiums and discounts	**(150.9)**	(133.0)
Future income taxes	**50.4**	33.4
Stock option plan	**3.2**	3.2
Other	**21.5**	17.5
	524.6	732.1
Other changes in other assets and liabilities	**99.8**	13.6
Cash flows from operating activities	**624.4**	745.7
Cash flows from investing activities		
Sales, maturities and repayments of:		
Bonds	**1,504.1**	1,515.2
Mortgages	**681.9**	533.7
Stocks	**291.5**	388.0
Real estate	**18.0**	11.2
Policy loans	**67.3**	67.4
Other invested assets	**145.9**	144.2
	2,708.7	2,659.7
Purchases of:		
Bonds	**(1,851.9)**	(2,206.5)
Mortgages	**(692.5)**	(531.4)
Stocks	**(386.2)**	(546.1)
Real estate	**(31.7)**	(0.9)
Policy loans	**(74.3)**	(67.9)
Other invested assets	**(311.2)**	(147.5)
Acquisition of cash and short-term investments	**4.1**	0.4
	(3,343.7)	(3,499.9)
Cash flows from investing activities	**(635.0)**	(840.2)
Cash flows from financing activities		
Issue of common shares	**2.7**	—
Redemption of debentures	**(135.0)**	(50.0)
Issue of debenture	**150.0**	—
Issue of other debts	**—**	150.0
Issue costs of IATS, net of taxes	**—**	(1.8)
Dividends paid on preferred shares	**(0.1)**	(0.3)
Dividends paid on common shares	**(32.5)**	(27.2)
Increase (decrease) in mortgage debt	**(1.7)**	(1.2)
Cash flows from financing activities	**(16.6)**	69.5
Increase (decrease) in cash and cash equivalents	**(27.2)**	(25.0)
Cash and cash equivalents at beginning of year	**280.1**	305.1
Cash and cash equivalents at end of year	**252.9**	280.1
Supplementary information:		
Interest paid	**23.0**	25.1
Income taxes paid, net of refunds	**36.0**	39.2

Consolidated Financial Statements of Segregated Funds

Consolidated statements of changes in net assets

Years ended December 31 (in millions of dollars)

	2004	2003
	$	$
Net assets at beginning of year	**5,042.2**	4,173.5
Additions:		
Amounts received from policyholders	**976.9**	982.9
Investment income	**148.8**	139.0
Net realized gains (losses)	**72.8**	(28.6)
Net increase in market value	**334.4**	534.3
	6,575.1	5,801.1
Deductions:		
Amounts withdrawn by policyholders	**550.5**	667.2
Operating expenses	**111.0**	91.7
	661.5	758.9
Net assets at end of year	**5,913.6**	5,042.2

Consolidated statements of net assets

As at December 31 (in millions of dollars)

	2004	2003
	$	$
Assets		
Bonds	**1,677.8**	1,421.5
Mortgages and mortgage-backed securities	**36.8**	49.8
Stocks	**1,674.5**	1,500.8
Fund units	**2,144.2**	1,725.5
Cash and short-term investments	**373.7**	331.8
Other assets	**27.8**	23.3
	5,934.8	5,052.7
Liabilities		
Accounts payable and accrued expenses	**21.2**	10.5
Net assets	**5,913.6**	5,042.2

Notes to Consolidated Financial Statements

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

1 ▪ Status and nature of activities

Industrial Alliance Insurance and Financial Services Inc., a company incorporated under *An Act respecting insurance* and Part 1A of the *Companies Act* (Québec), 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 funds, 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 Québec.

2 ▪ Accounting policies

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP) 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 GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenues, policy benefits, and expenses during the reporting period. Following reception of new information, it is possible that actual results could differ from those best 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 intercompany balances and transactions have been eliminated.

Matching of Assets to Liabilities

To properly 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 assets 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 15, the Company takes into account the level of matching achieved between assets and liabilities.

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 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 in the income statement, and previous interest accruals are reversed.

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

2 ▪ Accounting policies (continued)

Bonds

Bonds are recorded at cost, adjusted for amortization of premiums and discounts and, if need be, 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 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.

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 20 years. Commissions paid at the issuance of new loans are deferred and amortized to net investment income over the term of the related loans, to a maximum of 20 years. When a specific portfolio is disinvested, concurrent with the underlying liabilities, the gains or losses are recognized immediately in the income statement.

Stocks

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

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

Stocks that are specifically matched to Universal Life policy liabilities are carried at market value and any variation in market value is recognized immediately in the income statement as is the corresponding change in the liability.

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

Real Estate

Real estate held for investment, which includes own-use property, is carried at the moving average market method whereby the carrying value is adjusted towards market value at 3% per quarter of unrealized gains and losses. Each real estate property is appraised every 3 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 the lower of fair value less cost of sale and the value of underlying loan at date of foreclosure. 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.

Policy Loans

Policy loans are carried 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 3 months or less that are held for the purpose of meeting short-term cash commitments. Short-term investments are highly liquid investments with an original term to maturity greater than 3 months but less than 1 year.

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

2 ▪ Accounting policies (continued)

Derivative Financial Instruments

The Company uses derivative financial instruments, including contracts for foreign currency, interest rates 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 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 policy liabilities. Swap contracts give rise to periodic exchanges of interest payments with no exchange of 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 these swap contracts as hedges, failing which it will be exposed to currency risk. 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 moving average market method at the quarterly rate of 5% of unrealized gains and losses. The gains or losses related to interest rate swaps are recorded immediately 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, the investment in the significantly influenced entity and the notes receivable. 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 (redeemed in 2004). 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.

Impairment of Long-lived Assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Property and Equipment

Property and equipment, 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 which range from 3 to 8 years or the original term of their related lease agreements which range from 1 to 15 years.

Goodwill

Goodwill represents the excess of the cost of businesses acquired over the fair value of the net identifiable assets. The goodwill is tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the asset might be impaired. When the carrying amount of the goodwill exceeds its fair value, an impairment loss would be recognized in the income statement for an amount equal to the excess.

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. The liabilities associated with these guarantees are recorded in actuarial liabilities in the general fund of 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 (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 principle and respects the standards established by the Canadian Institute of Actuaries (CIA).

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 liability method of tax allocation to record the income taxes. According to this method, the future income taxes are recorded based on the tax consequence of the difference between the carrying value of the balance sheet items and their value for tax purposes, using those rates enacted or substantively enacted on the date the differences are reversed.

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

Foreign Currencies

The Group's operations in foreign countries 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 recognized immediately 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 funds 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 at the request of the policyholders.

Employee Future Benefits

The cost of the employee future benefits is determined using the projected benefit method pro-rated 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 is based on market interest rates at the measurement date of high quality debt instruments with cash flows that match the expected benefit payments. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Actuarial gains and losses arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the 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.

Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

The Company amortizes the transitional obligation on a straight-line basis over the average remaining service period of employees expected to receive benefits under the benefit plan.

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

2 ▪ Accounting policies (continued)

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 in the period the shares are purchased.

Deferred Share Units

The deferred share units (DSU) settled in cash correspond to the difference between the market value and the exercise price at the date of issue. This value is recorded 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 policies

Generally Accepted Accounting Principles

On January 1, 2004, the Company adopted *Generally Accepted Accounting Principles*, part of *Canadian Institute of Chartered Accountants* (CICA) handbook section 1100. This section establishes the standard for financial reporting in accordance with GAAP, and provides guidance on sources to consult when selecting accounting policies and determining appropriate disclosures.

Impact of an amendment to accounting standards—financial instruments disclosure and presentation

On January 1, 2004, the Company decided to adopt the accounting amendments outlined by CICA for financial instruments disclosure and presentation required for fiscal years beginning on or after November 1, 2004. Securities issued by the Company and that give the Company an unrestricted option to settle the principal in cash or in the equivalent value of its own common shares, must be classified as debt. Consequently, the Company has reclassified the Industrial Alliance Trust Securities (IATS) from non-controlling interest to other debts and the interest is presented in the net financing expenses.

Consolidation of Variable Interest Entities

The company will adopt, on a prospective basis, the *Consolidation of Variable Interest Entities* (VIEs), CICA Accounting Guideline 15. VIEs are entities in which equity investors do not have a controlling financial interest or the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by other parties. AcG-15 requires the consolidation of a VIE by its primary beneficiary, i.e., the party that receives the majority of the expected residual returns and/or absorbs the majority of the expected losses. The Accounting Guideline applies to annual and interim periods beginning on or after November 1, 2004. The Company continues to evaluate the impact of this new Guideline on its consolidated financial statements.

Investment Companies

In January 2004, the CICA issued Accounting Guideline 18, Investment Companies. Under this guideline, investment companies are required to account for all their investments at fair value, including investments that would be consolidated or accounted for using the equity method. The Guideline sets out the criteria for determining whether a company is an investment company and also provides guidance on the circumstances in which the parent company of, or equity method investor in, an investment company should account for the investment company’s investments at fair value. This Guideline applies to annual financial statements beginning on or after July 1, 2004. The Company continues to evaluate the impact of this new Guideline on its consolidated financial statements.

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

4 ▪ Restatement of the transfer amount of the participating policyholders' account

The Company realized that the amount that could be transferred from the participating policyholders' account to the retained earnings, pursuant to the *Insurance Companies Act*, had been understated each year since 1981, following the incorrect application of the calculation method.

Following this correction, the financial statements have been restated. The impact of this correction on the consolidated results translates into a $2.0 increase in the net income attributable to shareholders and an equivalent decrease in the net income attributable to policyholders during the year ended December 31, 2004 ($1.9 for the year ended December 31, 2003). The impact on the consolidated balance sheet is an increase in the retained earnings and an equivalent decrease in the participating policyholders' account of $51.6 as at beginning of 2004 ($49.7 in 2003).

This restatement increased the basic and diluted earnings per share for 2003 by $0.05.

5 ▪ 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 in 2003.

6 ▪ Acquisition of business

On December 31, 2004, the Company purchased 100% of the common shares of BLC-Edmond de Rothschild Asset Management Inc. (BLCER), a mutual fund management, private wealth management and institutional portfolio management company for a consideration of $69.1 in cash, and changed its name to Industrial Alliance Fund Management Inc. Also, an amount up to a maximum of $8.3 can be paid at the end of the fifth year if certain conditions are met. The initial amount is subject to a recovery clause that would reach up to $29.3 within the first 5 years if certain conditions are not met. The purchase price allocation shown is preliminary and is based on the Company's estimates of the fair values. The final allocation is expected to be completed within the next 6 months and may result in the reallocation of the purchase price.

On June 30, 2004, Industrial Alliance Securities Inc. purchased 100% of the common shares of Lynch Investments Limited, a securities broker, for a consideration of $0.4 in cash. The purchase price allocation shown is preliminary and is based on the Company's estimates of the fair values. The final allocation is expected to be completed within the next 6 months and may result in the reallocation of the purchase price.

On May 5, 2004, the Company purchased 100% of the common shares of Services de Gestion Évolution FM inc., an investment management company, for a consideration of $0.1 in cash and changed its name to Industrial Alliance Investment Management Inc.

On April 27, 2004, the Company completed the acquisition of an additional 50.25% of the common shares of FundEX Investments Inc., (FundEX) increasing its ownership in FundEX to 75.25%, for a cash consideration of $3.6 and an issuance of 9,963 of its own common shares for a total amount of $4.0. The value of the 25% already held by the Company is $0.6. On October 27, 2004, the Company completed the acquisition of an additional 8.25% of the common shares of FundEX Investments Inc., increasing its ownership in FundEX to 83.50% for a cash consideration of $0.7. The purchase price with respect to the future transaction for the remaining 16.50% has been set at an amount per share plus an adjustment tied to the net growth in the number of brokers under contract. Under this agreement, the purchase price will be a minimum of $1.3 over the next 3 years. The purchase price allocation shown is preliminary and is based on the Company's estimates of the fair values. The final allocation is expected to be completed within the next 6 months and may result in the reallocation of the purchase price.

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 1 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 was set at $1.4. During the year, the amount was recalculated at $1.7 as at December 31, 2004. The effect was an increase in the goodwill by $0.3.

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 3 years subject to certain targets being met.

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

6 ▪ Acquisition of business (continued)

The assets acquired and liabilities assumed are summarized as follows:

	2004			
	BLCER $	Lynch Investments Limited $	Services de gestion Évolution FM inc. $	FundEX $
Assets acquired				
Cash and cash equivalents	**3.1**	**—**	**0.1**	**0.9**
Other invested assets	**1.5**	**—**	**—**	**—**
Other assets	**6.1**	**0.1**	**—**	**3.5**
Goodwill	**19.3**	**—**	**—**	**—**
	30.0	**0.1**	**0.1**	**4.4**
Liabilities assumed				
Other liabilities	**4.9**	**0.1**	**0.1**	**3.3**
Subordinated debt	**—**	**—**	**—**	**0.9**
	4.9	**0.1**	**0.1**	**4.2**
Net assets acquired	**25.1**	**—**	**—**	**0.2**
Minority interest	**—**	**—**	**—**	**— ***
Goodwill	**44.0**	**0.4**	**0.1**	**5.1**
Purchase price	**69.1**	**0.4**	**0.1**	**5.3**

* less than $0.1

	2003	
	Global $	CMFL $
Assets acquired		
Cash	0.3	0.4
Other invested assets	—	6.5
Other assets	0.1	2.3
	0.4	9.2
Liabilities assumed		
Other liabilities	0.4	8.8
Net assets acquired	—	0.4
Goodwill	0.5	4.0
Purchase price	0.5	4.4

7 ▪ Cost of restructuring

In acquiring BLCER on December 31, 2004, the Company had developed a plan to restructure the operations. Costs of $3.4 are expected to be incurred as a result of consolidation activities involving operations and systems and compensation costs. This cost is accounted for as part of the purchase price.

	Accrued on acquisition		
	Expected future costs $	Amounts incurred for the year ended December 31, 2004 $	Cumulative amount incurred to date $
Compensation cost	**1.3**	—	—
Cost of restructuring operations	**2.1**	—	—
Total	**3.4**	—	—

On December 1, 2004, the Company announced the combination of the operations of its subsidiary The National Life Assurance Company of Canada with its own operations during the years 2005 and 2006. The impact of this combination in the consolidated financial statements is a $4.4 increase in the income taxes and in the future income taxes liabilities, a $0.6 increase in the change in provisions for future policy benefits and provision for future policy benefits, and a $1.6 ($1.0 after tax) increase in the general expenses and in accounts payable.

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

7 ▪ Cost of restructuring (continued)

	Expected future costs $	Expenses as incurred: Amounts incurred for the year ended December 31, 2004 $	Expenses as incurred: Cumulative amount incurred to date $
Compensation cost	**4.0**	**1.6**	**1.6**
Additional income taxes related to the consolidating operations	**4.4**	**4.4**	**4.4**
Additional provision for future policy benefits related to the consolidating operations	**0.8**	**0.6**	**0.6**
Accelerated amortization of software and equipment	**3.0**	**—**	**—**
Systems conversion	**4.0**	**—**	**—**
Total	**16.2**	**6.6**	**6.6**

8 ▪ Net investment income

Net investment income was derived from the following sources:

	2004			
	Investment income $	Realized and unrealized gains (losses) $	Change in provision for losses $	Total $
Bonds	**382.4**	**38.3**	**—**	**420.7**
Mortgages	**160.4**	**4.2**	**0.8**	**165.4**
Stocks	**24.5**	**55.4**	**—**	**79.9**
Real estate (net of $43.8 operating expenses)	**28.9**	**2.2**	**—**	**31.1**
Short-term investments	**3.6**	**—**	**—**	**3.6**
Significantly influenced entity	**1.3**	**—**	**—**	**1.3**
Other	**9.1**	**—**	**—**	**9.1**
	610.2	**100.1**	**0.8**	**711.1**
Investment expenses	**(14.2)**	**—**	**—**	**(14.2)**
Total	**596.0**	**100.1**	**0.8**	**696.9**

	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

9 ▪ Government assistance

The Company accounted for government assistance of $6.6 ($4.6 after tax) in 2004 ($11.3 ($7.8 after tax) in 2003). These amounts were accounted for based upon receipt of the formal confirmation in 2004 and 2003 from the Quebec government for the current and prior years. The 2003 amount was made up of $6.6 ($4.5 after tax) related to the year 2000, 2001 and 2002 and $4.7 ($3.3 after tax) related to the year 2003. 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 2005.

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

10 ▪ Income taxes

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

	2004		2003	
	$	**%**	$	%
Income before income taxes	**236.9**		207.5	
Provision for income tax at Canadian statutory rates	**80.0**	**33.77**	67.8	32.68
Non-taxable income	**(9.4)**	**(3.97)**	(7.2)	(3.47)
Impact of integration of National Life operations	**4.4**	**1.86**	—	—
Change in tax rate	**(2.7)**	**(1.14)**	4.4	2.12
Large corporations and financial institutions taxes	**5.4**	**2.28**	2.2	1.06
Income taxes and effective income tax rates	**77.7**	**32.80**	67.2	32.39

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

	2004	2003
	$	$
Current income taxes	**27.3**	33.8
Future income taxes	**50.4**	33.4
Total	**77.7**	67.2

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

	2004	2003
	$	$
Policy liabilities	**202.8**	172.6
Real estate	**44.4**	41.7
Other	**(22.9)**	(36.4)
Total	**224.3**	177.9

11 ▪ Retained earnings

To conform to Quebec statutory requirements with respect to provisions for future policy benefits, an amount of $213.8 of the retained earnings is appropriated ($219.8 as at December 31, 2003).

12 ▪ 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 1 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.

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

12 ▪ Invested assets (continued)

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

2004	Carrying value of unimpaired investments $	Carrying value of impaired investments $	Total carrying value of investments $	Unrealized gains (losses) $	Fair value $
Bonds					
Governments	**3,918.2**	**—**	**3,918.2**	**783.8**	**4,702.0**
Municipalities	**104.4**	**—**	**104.4**	**12.0**	**116.4**
Corporate and other	**2,050.6**	**1.3**	**2,051.9**	**176.5**	**2,228.4**
	6,073.2	**1.3**	**6,074.5**	**972.3**	**7,046.8**
Mortgages					
Insured	**1,310.2**	**6.7**	**1,316.9**	**32.2**	**1,349.1**
Conventional	**1,173.5**	**1.4**	**1,174.9**	**38.7**	**1,213.6**
	2,483.7	**8.1**	**2,491.8**	**70.9**	**2,562.7**
Stocks	**1,081.1**	**—**	**1,081.1**	**49.4**	**1,130.5**
Real estate					
Held for investment	**438.6**	**—**	**438.6**	**38.3**	**476.9**
Held for resale	**—**	**5.9**	**5.9**	**0.1**	**6.0**
	438.6	**5.9**	**444.5**	**38.4**	**482.9**
Policy loans	**162.7**	**—**	**162.7**	**—**	**162.7**
Short-term investments	**83.0**	**—**	**83.0**	**—**	**83.0**
Cash and cash equivalents	**252.9**	**—**	**252.9**	**—**	**252.9**
Other invested assets	**18.8**	**—**	**18.8**	**—**	**18.8**
Total	**10,594.0**	**15.3**	**10,609.3**	**1,131.0**	**11,740.3**

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
Short-term investments	24.7	—	24.7	—	24.7
Cash and cash equivalents	280.1	—	280.1	—	280.1
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 (in millions of dollars, unless otherwise indicated)

12 ▪ Invested assets (continued)

Other invested assets

	2004	2003
	$	$
Investment securities (at market value)	—	75.1
Receivable and accrued revenue	—	0.5
Significantly influenced entity	10.2	8.9
Notes receivable	8.6	7.0
Total	18.8	91.5

For bonds and stocks, fair values are determined with reference to quoted market prices if available, otherwise an appraisal is done using similar securities. For mortgages, the fair value reflects changes in interest rates that have occurred since the mortgages were issued. The fair 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, short-term investments, cash and cash equivalents and other remaining invested assets, the fair values are approximately the same as the carrying value due to their short-term maturity or current market rates.

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.

	2004			
	Bonds		Mortgages	
	Carrying value $	Fair value $	Carrying value $	Fair value $
Due in 1 year or less	425.9	432.8	296.9	298.0
Due after 1 year through 5 years	1,095.4	1,156.0	1,512.8	1,539.7
Due after 5 years through 10 years	1,389.3	1,555.3	378.5	402.6
Due after 10 years	3,163.9	3,902.7	303.6	322.4
Total	6,074.5	7,046.8	2,491.8	2,562.7

	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

The effective yield is between 2.02% and 14.74% (2.02% and 13.63% in 2003) for bonds and between 2.58% and 13.00% (3.08% and 13.00% in 2003) for mortgages.

Bonds by investment grade

	2004	2003
	Carrying value	
	$	$
AAA	596.0	624.8
AA	1,038.3	866.3
A	3,987.4	3,683.8
BBB	438.5	345.6
BB and lower	14.3	7.4
Total	6,074.5	5,527.9

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

12 ▪ Invested assets (continued)

Mortgages by region and type

	2004					
	Atlantic provinces $	Quebec $	Ontario $	Western provinces $	Outside Canada $	Total $
Residential	**0.9**	**358.1**	**42.0**	**7.4**	**—**	**408.4**
Multi-residential	**20.3**	**688.3**	**190.9**	**405.8**	**177.9**	**1,483.2**
Non-residential	**30.4**	**250.5**	**78.7**	**231.0**	**9.6**	**600.2**
Total	**51.6**	**1,296.9**	**311.6**	**644.2**	**187.5**	**2,491.8**

	2003					
	Atlantic provinces $	Quebec $	Ontario $	Western provinces $	Outside 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

Real estate by type of property

	2004	2003
	Carrying value	
	$	$
Residential and multi-residential	**7.4**	8.2
Office	**327.3**	306.8
Retail	**88.4**	89.4
Industrial	**10.2**	10.2
Land and other	**11.2**	11.1
Total	**444.5**	425.7

c) Provisions for Credit Losses

	2004	2003
	$	$
Bonds	**32.4**	30.5
Insured mortgage loans	**—**	0.1
Conventional mortgage loans	**3.0**	4.4
Real estate acquired to settle loans	**3.7**	3.8
Other	**—**	1.9
Total	**39.1**	40.7
Continuity of provisions		
Provisions for losses at beginning of year	**40.7**	41.1
Net increase in provisions for losses	**—**	0.1
Write-offs, net of recoveries	**(1.6)**	(0.5)
Provisions for losses at end of year	**39.1**	40.7

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

12 ▪ Invested assets (continued)

d) Securities Lending

The Company engages in securities lending to generate additional income. Certain securities from its portfolio are loaned to other institutions for short periods. Collateral, which represents 105% of the market value of the loaned securities, is deposited by the borrower with a lending agent, usually a securities custodian, and retained by the lending agent until the underlying security has been returned to the Company. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market values fluctuate. It is Company practice to obtain a guarantee from the lending agent against counterparty default, including collateral deficiency. As at December 31, 2004, the Company had loaned securities (which are included in invested assets) with a carrying value and market value of approximately $523.6 and $587.5 respectively ($264.4 and $296.4 in 2003).

13 ▪ Goodwill

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

	2004	2003
	$	$
Balance at beginning of year	**56.5**	51.9
Acquisition of business	**68.9**	4.5
Adjustment on previous years' transactions	**0.3**	0.1
Balance at end of year	**125.7**	56.5

14 ▪ Other assets

Other assets consist of the following:

	2004	2003
	$	$
Systems hardware and software, furniture, and equipment, at cost	**76.9**	79.1
Less: accumulated depreciation and amortization	**52.7**	49.0
	24.2	30.1
Leasehold improvements, at cost	**50.7**	41.2
Less: accumulated depreciation	**28.0**	22.7
	22.7	18.5
Investment income due and accrued	**57.5**	64.9
Outstanding premiums	**65.0**	59.4
Due from reinsurers	**21.4**	23.2
Due from agents	**31.4**	28.9
Accounts receivable	**54.9**	57.7
Employee future benefit assets	**7.3**	8.6
Deferred expenses	**10.1**	7.3
Prepaid expenses	**13.5**	20.6
Miscellaneous	**7.5**	6.4
	268.6	277.0
Total	**315.5**	325.6

The depreciation and amortization of property and equipment is $13.6 ($14.1 in 2003).

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 (in millions of dollars, unless otherwise indicated)

15 ▪ 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 CIA. 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:

	2004				
	Individual		Group		
	Life & Health $	Annuities $	Life & Health $	Pensions $	Total $
Policy liabilities					
Canada	**3,590.5**	**1,536.5**	**874.7**	**2,095.4**	**8,097.1**
United States	**112.7**	**236.7**	**0.1**	**0.3**	**349.8**
Other countries	**46.1**	**0.7**	**—**	**—**	**46.8**
Total	**3,749.3**	**1,773.9**	**874.8**	**2,095.7**	**8,493.7**
Assets backing policy liabilities					
Bonds and other fixed interest securities	**2,519.3**	**662.5**	**515.5**	**1,267.3**	**4,964.6**
Mortgages	**282.6**	**1,040.1**	**330.2**	**635.9**	**2,288.8**
Stocks	**718.3**	**17.6**	**3.1**	**32.2**	**771.2**
Real estate	**65.0**	**16.7**	**—**	**140.8**	**222.5**
Policy loans	**137.6**	**24.1**	**0.1**	**—**	**161.8**
Other assets	**26.5**	**12.9**	**25.9**	**19.5**	**84.8**
Total	**3,749.3**	**1,773.9**	**874.8**	**2,095.7**	**8,493.7**

	2003				
	Individual		Group		
	Life & Health $	Annuities $	Life & Health $	Pensions $	Total $
Policy liabilities					
Canada	3,194.9	1,553.0	806.0	2,068.1	7,622.0
United States	101.9	222.9	0.1	0.3	325.2
Other countries	45.6	0.7	—	—	46.3
Total	3,342.4	1,776.6	806.1	2,068.4	7,993.5
Assets backing policy liabilities					
Bonds and other fixed interest securities	2,329.3	603.3	408.7	1,298.9	4,640.2
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	1,776.6	806.1	2,068.4	7,993.5

The fair value of assets backing policy liabilities as at December 31, 2004 was estimated at $9.5 billion ($8.9 billion in 2003). 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 (in millions of dollars, unless otherwise indicated)

15 ▪ 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 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 annuities and group pensions, 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 but no future mortality improvement is assumed.

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 and Interest Rate Risk

CALM is the method prescribed by the standards of the CIA to ensure the adequacy of assets backing the policy liabilities.

The CALM 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 fluctuation 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.

Currency Risk

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

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

15 ▪ Policy liabilities (continued)

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 $75.0 ($66.3 as at December 31, 2003) to reflect the discounted value of policy-related tax cash flows in excess of future income tax liabilities.

Expenses

Policy maintenance expenses were calculated using the Company's internal expense studies. Maintenance expenses include costs of servicing and maintaining in force policies and associated overhead expenses. 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 CIA. 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 Company also has reinsurance agreements covering financial losses from multiple claims due to catastrophic events affecting several lives insured.

To reduce the risk of reinsurance, 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.

Guarantees on Segregated Funds

A liability for guarantees on segregated funds is maintained in the general fund. The amount of liability is at least as great as the amount determined using the methodology defined by the CIA.

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 and group annuity 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.

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

15 ▪ Policy liabilities (continued)

Changes in policy liabilities*

	2004	2003
	$	$
Balance at the beginning of year	**7,993.5**	7,298.7
Impact of change in future income tax rate	**—**	(3.9)
Reinsurance recaptured	**—**	208.0
Impact of the integration of National Life operations	**0.6**	—
Changes in assumptions	**5.7**	5.7
Normal changes	**521.5**	560.9
Foreign currency translation	**(27.6)**	(75.9)
Balance at the end of year	**8,493.7**	7,993.5

* Including participating policyholders' account

16 ▪ Other liabilities

Other liabilities consist of the following:

	2004	2003
	$	$
Unearned premiums	**70.4**	61.1
Other contractual liabilities	**26.2**	19.5
Mortgage debt	**38.6**	39.7
Future income tax liabilities	**224.3**	177.9
Accounts payable and accrued:		
Due to reinsurers	**12.5**	7.4
Due to agents	**23.0**	19.2
Administration fees payable	**3.7**	3.1
Income and premium taxes payable	**27.2**	29.4
Withholding taxes and deductions payable	**6.2**	6.4
Interest payable	**0.1**	15.9
Employee future benefits	**32.5**	31.8
Other	**102.7**	99.8
Accounts payable for amounts on deposit for clients	**77.9**	69.0
Total	**645.3**	580.2

The mortgage debts bear interest between 6.82% and 7.90% with a maturity between 2009 and 2012. These mortgage debts are secured on real estate with a carrying value of $135.8.

The reimbursement of the mortgage debts over the next 5 years will be:

2005	2006	2007	2008	2009
$	$	$	$	$
1.2	1.3	1.4	1.5	1.4

The interest expense on the mortgage debts is $2.8 ($2.8 in 2003).

The fair value of the other financial liabilities except the mortgage debts is approximately the same as the carrying value due to their short-term nature. The fair value of the mortgage debts is $40.6 ($40.6 in 2003) taking into consideration the interest rates attached to the mortgage debt and the current interest rates.

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

17 ▪ 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.

	2004	2003
	$	$
Related to policy liabilities		
Bonds	**321.8**	291.7
Stocks	**15.7**	14.9
Mortgages	**15.4**	13.5
Real estate	**4.8**	4.6
	357.7	324.7
Related to equity		
Bonds	**15.6**	15.8
Stocks	**3.1**	5.7
Mortgages	**(4.6)**	(3.8)
Real estate	**8.9**	4.8
	23.0	22.5
Total	**380.7**	347.2

18 ▪ Subordinated debentures

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

	2004		2003	
	Carrying value **$**	Fair value **$**	Carrying value $	Fair value $
Subordinated debenture, Series 1 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
Subordinated debenture, Series 3 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

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

18 ▪ Subordinated debentures (continued)

	2004		2003	
	Carrying value $	**Fair value $**	Carrying value $	Fair value $
Subordinated debenture with a maturity on June 30, 2019 and bearing interest of 5.13% payable semi-annually from June 30, 2004 to June 30, 2014. After that date, the interest rate will be equal to the 90-day Bankers' Acceptance rate plus 1% payable quarterly and redeemable by the Company before June 30, 2014, wholly or partially, with the approval of the Autorité des marchés financiers at a redemption price that is equal to the higher of the Canada yield price and par. After June 30, 2014, the Company may redeem in whole, but not in part only, on each payment date of quarterly interest, with the prior approval of the Autorité des marchés financiers at par.	**150.0**	**150.7**	—	—
Total	**150.0**	**150.7**	135.0	150.3

The net financing expense on subordinated debentures is $7.8 ($17.2 in 2003).

On March 11, 2004, the Company issued a new subordinated debenture of $150.0, with a maturity on June 30, 2019.

Subordinated debenture, Series 1

On April 29, 2004, the Company redeemed the subordinated debenture, Series 1 of $60.0. This redemption reduced the investment securities fund included in the other invested assets and the accounts payable related to this item.

Subordinated debenture, Series 3

On March 24, 2004, the Company redeemed the subordinated debenture, Series 3 of $75.0 at par from Capital d'Amérique CDPQ inc.

Subordinated debenture, Series 2

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.

19 ▪ Other debts

	2004	2003
	$	$
Trust units issued by Industrial Alliance Capital Trust 150,000 Trust securities – Series A	**150.0**	150.0

The net financing expense on the other debts is $8.5 ($4.2 in 2003).

The fair value of the other debts is $155.8 ($150.7 in 2003).

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 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.

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

20 ▪ Minority interest

The Company controls a 83.50% equity interest in FundEX Investments Inc.

The minority interest in the balance sheet represents less than $0.1.

	2004	2003
	$	$
Minority interest in the subsidiary	**(0.1)**	—

21 ▪ 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 Autorité des marchés financiers, 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 Autorité des marchés financiers 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 Autorité des marchés financiers 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 Autorité des marchés financiers. 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 Autorité des marchés financiers. 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 (in millions of dollars, unless otherwise indicated)

21 ▪ Share capital (continued)

	2004		2003	
	Number of shares **(in thousands)**	Amount **$**	Number of shares (in thousands)	Amount $
Common shares				
Balance at beginning of year	**39,345.6**	**438.5**	37,648.2	382.2
Shares issued on exercise of stock options	**52.7**	**2.3**	—	—
Shares issued on acquisition of business	**10.0**	**0.5**	—	—
Cancellation of shares issued at demutualization	**(108.2)**	**(1.7)**	—	—
Shares issued on conversion of preferred shares – Series 1	**444.6**	**18.7**	1,697.4	56.3
Balance at end of year	**39,744.7**	**458.3**	39,345.6	438.5
Shares held in treasury	**(10.8)**	**(0.2)**	(10.8)	(0.2)
	39,733.9	**458.1**	39,334.8	438.3
Preferred shares - Series 1				
Balance at beginning of year	**750.0**	**18.7**	3,000.0	75.0
Shares converted into common shares	**(750.0)**	**(18.7)**	(2,250.0)	(56.3)
Balance at end of year	**—**	**—**	750.0	18.7
Preferred shares - Series A				
Balance at beginning of year	**4.0**	**0.1**	—	—
Shares issued	**—**	**—**	4.0	0.1
Balance at end of year	**4.0**	**0.1**	4.0	0.1
Shares held in treasury	**(4.0)**	**(0.1)**	(4.0)	(0.1)
	—	**—**	—	—
Total share capital		**458.1**		457.0

On July 27, 2004, following Board approval, the Company cancelled the outstanding common shares issued at the time of demutualization that have not been claimed. The impact of this cancellation is a decrease in the share capital and an increase in the retained earnings.

On March 17, 2004, the Company converted 750,000 Series 1 preferred shares, that were held by Capital d'Amérique CDPQ inc., being the balance of the Series 1 preferred shares, into 444,587 common shares, for an amount of $18.7.

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 (in millions of dollars, unless otherwise indicated)

22 ▪ Earnings per share

	2004	2003
	$	$ (Restated) (note 4)
Shareholders' net income	**155.1**	136.9
Less: dividends on preferred shares	**(0.1)**	(0.3)
Common shareholders' net income	**155.0**	136.6
Effect of the conversion on the common shareholders' net income:		
Reduction of financing expenses, net of income taxes and dividends on preferred shares	**0.2**	1.5
Common shareholders' net income on a diluted basis	**155.2**	138.1
Weighted daily average number of shares outstanding	**39,617,937**	38,808,008
Add: diluted effect of stock options granted and outstanding	**149,575**	10,888
Add: diluted effect of convertible preferred shares	**94,576**	985,753
Weighted average number of shares outstanding on a diluted basis	**39,862,088**	39,804,649
Earnings per share (in dollars)		
basic	**3.91**	3.52
diluted	**3.89**	3.47

23 ▪ Stock-based compensation

Stock Option Plan

The Company grants a certain number of common stock options to the directors and 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 weighted average price of the shares traded on the Toronto Stock Exchange during the 5 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 4 anniversaries of the grant.

A total of 2,630,652 common shares (about 7% of the outstanding common shares) can be granted under the plan 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:

	2004		2003	
	Number of stock options outstanding **(in thousands)**	Weighted average exercise price **(in dollars)**	Number of stock options outstanding (in thousands)	Weighted average exercise price (in dollars)
At beginning of year	**1,150.8**	**40.92**	931.3	41.89
Granted	**268.0**	**46.71**	247.0	37.26
Exercised	**(52.7)**	**39.14**	—	—
Forfeited	**(61.6)**	**41.19**	(27.5)	40.99
At end of year	**1,304.5**	**42.17**	1,150.8	40.92
Exercisable at end of year	**579.7**	**40.90**	339.4	40.64

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

23 ▪ Stock-based compensation (continued)

Fair value of 2004 options was estimated to be $11.67 at the grant date using the Black-Scholes option pricing model. The pricing model assumes the following information:

Risk free interest rate	**4.23%**
Expected volatility	**20%**
Expected life	**7 years**
Expected dividends	**1.63%**

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.

		Options outstanding	
Exercise Prices (in dollars)	Number of options outstanding (in thousands)	Average remaining life (in years)	Number of exercisable options (in thousands)
38.11	397.0	5.93	302.3
45.62	422.5	6.88	221.5
37.25	212.0	8.11	53.4
37.99	10.0	8.82	2.5
46.88	263.0	9.12	—
Total	1,304.5	7.26	579.7

Share Purchase Plan for Employees

The Company adopted an employee share purchase plan in which employees can contribute up to 5% of their salary to a maximum of 1,500 dollars per year. The Company matches 50% of the employee's contribution amount. The Company’s contribution is charged to the income statement as a general expense. The shares purchased by the employees under the 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 directors’ remuneration or management incentive bonus in the form of DSUs. This election to participate must be made on an annual basis.

24 ▪ Employee future benefits

The Company maintains a number of funded and unfunded defined benefit plans which provide pension and post-employment benefits to most of its employees and a defined contribution plan.

Other plans are contributory life and health care plans with employee contributions adjusted annually, and non-contributory life insurance plans. A plan also provides pre-retirement long-term and short-term disability income benefits.

Defined Benefit Plans

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was December 31, 2003 and the next required valuation will be as at December 31, 2006.

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

24 ▪ Employee future benefits (continued)

	2004		2003	
	Pension plans $	Other plans $	Pension plans $	Other plans $
Defined benefit plan assets				
Fair value at beginning of year	**265.6**	**—**	227.1	—
Actual return on assets	**30.9**	**—**	36.6	—
Company contributions	**10.2**	**—**	9.3	—
Employee contributions	**5.1**	**—**	4.9	—
Benefits paid	**(12.5)**	**—**	(12.3)	—
Fair value at end of year	**299.3**	**—**	265.6	—
Defined benefit plan obligations				
Balance at beginning of year	**287.1**	**16.1**	246.8	15.6
Current service cost	**11.6**	**1.2**	9.9	0.3
Interest cost	**16.6**	**0.9**	14.8	0.9
Employee contributions	**5.1**	**—**	4.9	—
Benefits paid	**(12.5)**	**(0.5)**	(12.3)	(0.8)
Actuarial (gains) losses	**13.9**	**2.4**	23.0	0.1
Balance at end of year	**321.8**	**20.1**	287.1	16.1
Accrued plan obligations are composed of:				
Funded plans	**279.7**	**—**	247.3	—
Unfunded plans	**42.1**	**20.1**	39.8	16.1
	321.8	**20.1**	287.1	16.1
Reconciliation of funded status to the amounts recorded in financial statements				
Fair value of plan assets	**299.3**	**—**	265.6	—
Accrued benefit obligation	**321.8**	**20.1**	287.1	16.1
Funded status of plans–surplus (deficit)	**(22.5)**	**(20.1)**	(21.5)	(16.1)
Unamortized net actuarial (gains) losses	**17.1**	**1.5**	16.4	(1.0)
Unamortized past service costs	**5.6**	**—**	6.0	—
Unamortized transitional obligation	**(5.0)**	**0.6**	(5.5)	0.7
Accrued benefit asset (liability), net of valuation allowance	**(4.8)**	**(18.0)**	(4.6)	(16.4)
The amounts in the balance sheet are:				
Other assets	**7.4**	**(0.5)**	8.6	(0.4)
Other liabilities	**12.4**	**17.5**	13.4	15.9

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

24 ■ Employee future benefits (continued)

Funded plans with accrued benefit obligations in excess of plan assets:

Included in the above accrued benefit obligation of plan assets at year end are the following amounts in respect of plans that are not fully funded:

	2004		2003	
	Pension plans $	**Other plans $**	Pension plans $	Other plans $
Funded status–plan deficit				
Accrued benefit obligation	**82.4**	**—**	72.4	—
Fair value of plan assets	**71.2**	**—**	67.0	—
Funded status–plan deficit	**(11.2)**	**—**	(5.4)	—
Benefit plan expenses				
Current service cost	**11.6**	**1.2**	9.9	0.3
Interest cost	**16.6**	**0.9**	14.8	0.9
Actual return on plan assets	**(30.9)**	**—**	(36.6)	—
Actuarial loss (gain) on plan	**13.9**	**2.4**	23.0	—
Elements of employee future benefit costs before adjustment to recognize the long-term nature of employee future benefit costs	**11.2**	**4.5**	11.1	1.2
Adjustments to recognize the long-term nature of employee future benefit costs:				
Difference between actual return and expected return	**12.2**	**—**	20.6	—
Difference between actuarial (gain) loss recognized for year and actuarial (gain) loss on accrued benefit obligation for year	**(12.9)**	**(2.4)**	(22.2)	(0.3)
Difference between amortization of past service costs for year and actual plan amendments for year	**0.5**	**—**	0.5	—
Amortization of the transitional obligation	**(0.5)**	**—**	(0.5)	(0.6)
Benefit costs recognized	**10.5**	**2.1**	9.5	0.3

Plan assets consist of the following measured as at December 31 of each year:

	2004	2003
	%	%
Asset categories		
Bonds	**40.46**	37.06
Mortgages	**—**	0.85
Stocks	**55.61**	56.47
Other	**3.93**	5.62
Total	**100.00**	100.00

The pension plan assets contain 142,676 common shares of the Company (142,676 in 2003) for a market value of $7.8 ($6.2 in 2003).

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

24 ▪ Employee future benefits (continued)

Significant assumptions

	2004		2003	
Accrued benefit obligation	Pension plans	Other plans	Pension plans	Other plans
	%	**%**	%	%
Discount rate	**5.8**	**5.8**	6.0	6.0
Rate of compensation increase	**3.5**	**3.5**	3.5	3.5

	2004		2003	
Benefit costs	Pension plans	Other plans	Pension plans	Other plans
	%	**%**	%	%
Discount rate	**5.8**	**5.8**	6.0	6.0
Expected long-term rate of return on plan assets	**7.0**	**—**	7.0	—
Rate of compensation increase	**3.5**	**3.5**	3.5	3.5

	2004 and 2003			
	Other plans			
Assumed health care cost trend rates	Drugs	Medical	Dental	Others
Initial health care cost trend rates	**11.8%**	**15.0%**	**5.8%**	**5.3%**
Cost trend rate declines to	**5.3%**	**5.0%**	**5.8%**	**5.3%**
Year that the rate reaches the rate it is assumed to remain at	**8.0**	**10.0**	**—**	**—**

Sensitivity analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2004.

	Increase	Decrease
	$	**$**
Total of service and interest cost	**0.3**	**(0.2)**
Accrued benefit obligation	**2.8**	**(2.0)**

Defined contribution plan

A defined contribution plan is maintained by the Company providing pension benefits. These amounts are not included in the cost recognized for the defined benefit plans above.

The total cost recognized for the Company's defined contribution plan for 2004 is $0.4 ($0.4 in 2003).

The liability related to this plan is presented in other liabilities for an amount of $1.9 ($1.8 in 2003).

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

25 ▪ 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, currency exchange rates and market values of invested assets.

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

			2004		
	Equity contracts $	Currency contracts $	Interest rate contracts $	Credit contracts $	Total contracts $
Notional amount by term to maturity					
Less than 1 year	**160.8**	**15.0**	**41.1**	**13.9**	**230.8**
1 to 5 years	**96.6**	**8.9**	**40.5**	**26.0**	**172.0**
Over 5 years	**—**	**31.4**	**3.9**	**—**	**35.3**
Total	**257.4**	**55.3**	**85.5**	**39.9**	**438.1**
Fair value	**(0.9)**	**4.9**	**(1.9)**	**(0.1)**	**2.0**
Credit exposure risk					
Maximum credit risk	**3.9**	**5.9**	**1.3**	**—**	**11.1**
Potential future credit exposure	**15.5**	**2.7**	**0.4**	**—**	**18.6**
Credit equivalent amount	**19.4**	**8.6**	**1.7**	**—**	**29.7**

			2003		
	Equity contracts $	Currency contracts $	Interest rate contracts $	Credit 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

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 underlying 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, 2004 and 2003 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 (in millions of dollars, unless otherwise indicated)

26 ▪ 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. The Company operates mainly in Canada.

Segmented income statements

	2004					
	Individual		Group			
	Life and Health $	Annuities $	Life and Health $	Pensions $	Other Activities* $	Total $
Revenues						
Premiums	**763.1**	**906.8**	**637.9**	**461.1**	**83.5**	**2,852.4**
Net investment income	**321.9**	**133.8**	**64.0**	**175.0**	**2.2**	**696.9**
Fees and other revenues	**2.5**	**85.7**	**12.3**	**12.8**	**34.2**	**147.5**
	1,087.5	**1,126.3**	**714.2**	**648.9**	**119.9**	**3,696.8**
Operating expenses						
Cost of commitments to policyholders	**650.0**	**239.1**	**466.9**	**426.4**	**57.8**	**1,840.2**
Net transfer to segregated funds	**—**	**746.3**	**—**	**183.4**	**—**	**929.7**
Commissions, general and other expenses	**325.3**	**92.6**	**197.2**	**18.9**	**56.0**	**690.0**
	975.3	**1,078.0**	**664.1**	**628.7**	**113.8**	**3,459.9**
Income before income taxes	**112.2**	**48.3**	**50.1**	**20.2**	**6.1**	**236.9**
Income taxes	**(37.9)**	**(16.0)**	**(16.3)**	**(5.6)**	**(1.9)**	**(77.7)**
Net income before allocation of other activities	**74.3**	**32.3**	**33.8**	**14.6**	**4.2**	**159.2**
Allocation of other activities	**2.6**	**1.0**	**(0.2)**	**0.8**	**(4.2)**	**—**
Net income for the year	**76.9**	**33.3**	**33.6**	**15.4**	**—**	**159.2**
Attributable to shareholders	**73.5**	**33.3**	**33.6**	**14.7**	**—**	**155.1**
Attributable to participating policyholders	**3.4**	**—**	**—**	**0.7**	**—**	**4.1**

	2003 (Restated) (note 4)					
	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	305.6	143.9	58.5	170.1	(0.8)	677.3
Fees and other revenues	2.7	72.0	10.7	4.7	17.6	107.7
	991.7	874.6	672.2	731.2	82.0	3,351.7
Operating expenses						
Cost of commitments to policyholders	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
Income before income taxes	109.7	43.3	32.9	19.2	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	74.4	29.6	21.0	13.9	1.4	140.3
Allocation of other activities	1.5	0.6	(1.2)	0.5	(1.4)	—
Net income for the year	75.9	30.2	19.8	14.4	—	140.3
Attributable to shareholders	73.0	30.1	19.8	14.0	—	136.9
Attributable to participating policyholders	2.9	0.1	—	0.4	—	3.4

* Includes other segments and intercompany eliminations.

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

26 ▪ Segmented information (continued)

Segmented general fund assets

	2004					
	Individual		Group			
	Life and Health $	Annuities $	Life and Health $	Pensions $	Other activities* $	Total $
Assets						
Invested assets	**4,841.2**	**2,095.5**	**1,057.2**	**2,478.4**	**137.0**	**10,609.3**
Goodwill	**30.5**	**—**	**19.9**	**—**	**75.3**	**125.7**
Other assets	**122.5**	**47.0**	**66.8**	**56.6**	**22.6**	**315.5**
Total	**4,994.2**	**2,142.5**	**1,143.9**	**2,535.0**	**234.9**	**11,050.5**

	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

* Includes other segments and intercompany eliminations.

27 ▪ Premiums

	2004					
	Individual		Group			
	Life and Health $	Annuities $	Life and Health $	Pensions $	General Insurance $	Total $
Invested in general fund	**763.1**	**237.5**	**637.9**	**148.9**	**83.5**	**1,870.9**
Invested in segregated funds	**—**	**669.3**	**—**	**312.2**	**—**	**981.5**
Total	**763.1**	**906.8**	**637.9**	**461.1**	**83.5**	**2,852.4**

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

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

28 ▪ 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.

Contracts

The Company currently has contracts covering various products and services, principally leased premises and outsourced computer services, which, due to their nature, are difficult to cancel. The minimum obligations for each of the next 5 years and thereafter are as follows:

2005	2006	2007	2008	2009	2010 and thereafter
$	$	$	$	$	$
19.1	15.5	7.4	2.6	1.2	1.2

In addition, from time to time, the Company will make financial commitments in the ordinary course of business. The amount of such commitments as at December 31, 2004 is $0.9 (nil as at December 31, 2003).

Investment commitments

In the normal course of business, various outstanding contractual commitments are not fulfilled. These commitments are not reflected in the consolidated financial statements.

	Expires in		
	30 days	31 to 366 days	2006 and thereafter
	$	$	$
	9.0	111.4	30.0

The majority of these commitments are to extend credit under commercial and residential mortgage loans and private investments.

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.

Indemnification

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

Coverage

In the management of its operations, the Company must sometimes cover certain defaults of credit or payment conditions. This coverage represents a minimum amount of $0.1.

29 ▪ Comparative figures

Certain comparative figures have been reclassified to comply with the current year’s presentation.

Five-Year History

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

	2004	2003 (restated[1])	2002 (restated[2])	2001	2000
Profitability					
Income					
Net income	**159.2**	140.3	103.5	106.6	100.8
Net income attributable to participating policyholders	**4.1**	3.4	6.1	2.7	2.7
Net income attributable to shareholders	**155.1**	136.9	97.4	103.9	98.1
Unusual items[3]	**—**	—	—	—	(6.0)
Goodwill expense[4]	**—**	—	—	3.4	2.9
Provision for Teleglobe[5]	**—**	—	19.4	—	—
Restructuring charges[6]	**6.1**	—	—	—	—
Net income attributable to shareholders, adjusted	**161.2**	136.9	116.8	107.3	95.0
Return on common shareholders' equity					
According to net income	**13.6%**	13.9%	11.8%	14.0%	15.0%
According to net income, adjusted	**14.1%**	13.9%	14.0%	14.4%	14.5%
Earnings per share					
Earnings per share (basic)					
According to net income	**$ 3.91**	$ 3.52	$ 2.57	$ 2.75	$ 2.59
According to net income, adjusted	**$ 4.07**	$ 3.52	$ 3.09	$ 2.84	$ 2.51
Earnings per share (diluted)					
According to net income	**$ 3.89**	$ 3.47	$ 2.57	$ 2.75	$ 2.59
According to net income, adjusted	**$ 4.05**	$ 3.47	$ 3.09	$ 2.84	$ 2.51
Net income attributable to shareholders by line of business, adjusted					
Individual Insurance	**78.3**	73.0	67.1	57.4	47.8
Individual Annuities	**34.3**	30.1	18.5	21.3	27.0
Group Insurance	**33.9**	19.8	18.8	12.8	4.5
Group Pensions	**14.7**	14.0	12.4	15.8	15.7
Total	**161.2**	136.9	116.8	107.3	95.0
Capitalization					
Solvency ratio					
Available capital					
Tier 1	**1,246.2**	996.1	695.0	681.0	614.0
Tier 2	**136.1**	295.8	342.4	317.8	329.5
Total available capital	**1,382.3**	1,291.9	1,037.4	998.8	943.5
Required capital	**624.0**	583.7	556.5	534.3	503.4
Solvency ratio (MCCSR[7])	**222%**	221%	186%	187%	187%
Capital structure					
Subordinated debentures	**150.0**	135.0	185.0	185.0	185.0
Other debt (IATS[8])	**150.0**	150.0	—	—	—
Participating policyholders' account	**17.3**	13.2	59.5	53.4	50.7
Shareholders' equity					
Common shares	**458.1**	438.3	382.0	382.0	379.2
Preferred shares	**—**	18.7	75.0	75.0	75.0
Contributed surplus	**9.5**	6.5	3.3	—	—
Retained earnings	**751.7**	627.5	470.2	397.6	316.9
Currency translation account	**(5.8)**	(2.5)	7.5	10.2	7.4
Total	**1,213.5**	1,088.5	938.0	864.8	778.5
Total capital structure	**1,530.8**	1,386.7	1,182.5	1,103.2	1,014.2

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

Capitalization (continued)

	2004	2003 (restated[1])	2002 (restated[2])	2001	2000
Debt measures					
Debt to capital ratio[9]	**19.6%**	20.6%	15.6%	16.8%	18.2%
Coverage ratio (in number of times)[10]	**13.4**	9.6	8.7	—	—

Business growth[11]

	2004	2003 (restated[1])	2002 (restated[2])	2001	2000
Revenues					
Premiums					
General funds	**1,870.9**	1,724.7	1,580.5	1,504.2	1,545.5
Segregated funds	**981.5**	842.0	756.7	572.8	693.5
Total	**2,852.4**	2,566.7	2,337.2	2,077.0	2,239.0
Total premiums excluding CMA[12]	**2,852.4**	2,566.7	2,337.2	1,889.0	1,815.4
Net investment income					
Investment income	**596.0**	574.5	557.4	561.1	573.2
Realized and unrealized gains (losses)	**100.1**	102.9	(78.3)	(16.6)	28.2
Change in provision for losses	**0.8**	(0.1)	(28.9)	(2.2)	(2.2)
Total	**696.9**	677.3	450.2	542.3	599.2
Fees and other revenues	**147.5**	107.7	95.3	93.6	88.1
Total revenues	**3,696.8**	3,351.7	2,882.7	2,712.9	2,926.3
Assets under management/administration					
Assets under management					
General funds	**11,050.5**	10,307.6	9,289.2	8,886.3	8,571.8
Segregated funds	**5,913.6**	5,042.2	4,173.5	4,049.6	5,432.8
Other	**1,890.5**	94.1	—	—	—
Total	**18,854.6**	15,443.9	13,462.7	12,935.9	14,004.6
Assets under administration	**9,641.1**	4,129.6	3,298.2	2,192.7	90.6
Total	**28,495.7**	19,573.5	16,760.9	15,128.6	14,095.2
Total excluding CMA[12]	**28,495.7**	19,573.5	16,760.9	13,337.5	12,574.3
Individual insurance					
Sales	**139.9**	128.7	133.3	145.0	134.1
Sales excluding CMA[12]	**139.9**	128.7	133.3	135.6	125.3
Premiums	**763.1**	683.4	663.9	658.8	607.8
Individual annuities					
Sales/premiums					
General funds	**237.5**	227.9	198.7	147.4	163.9
Segregated funds	**669.3**	430.8	392.0	381.7	449.9
Total	**906.8**	658.7	590.7	529.1	613.8
Net sales					
Segregated funds	**332.7**	117.5	152.1	199.0	264.6
Funds under management					
General funds	**1,770.9**	1,775.3	1,737.5	1,721.7	1,786.0
Segregated funds	**3,871.6**	3,261.5	2,795.2	2,928.1	2,859.8
Total	**5,642.5**	5,036.8	4,532.7	4,649.8	4,645.8

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

Business growth (continued)

	2004	2003 (restated[1])	2002 (restated[2])	2001	2000
Group insurance					
Sales					
Employee benefit plans	**55.7**	53.3	92.4	59.1	37.4
Creditor insurance	**132.6**	130.1	124.5	108.0	100.3
Premiums and premium equivalents					
Employee benefit plans	**448.4**	426.0	378.6	331.6	276.5
Creditor insurance	**109.8**	105.5	98.7	85.9	84.6
Special Markets Group (SMG)	**79.7**	71.5	65.7	32.3	27.8
Total premiums	**637.9**	603.0	543.0	449.8	388.9
ASO	**96.1**	99.2	43.9	33.5	29.0
Total	**734.0**	702.2	586.9	483.3	417.9
Group pensions					
Sales/premiums					
Accumulation contracts					
General funds	**49.1**	35.3	40.7	82.0	309.8
Segregated funds	**312.2**	411.2	364.7	191.1	243.6
Total	**361.3**	446.5	405.4	273.1	553.4
Insured annuities (general funds)	**99.8**	109.9	86.0	133.9	63.1
Total	**461.1**	556.4	491.4	407.0	616.5
Total excluding CMA[12]	**461.1**	556.4	491.4	235.0	202.8
Funds under management					
Accumulation contracts					
General funds	**158.8**	162.5	153.7	147.5	203.2
Segregated funds	**1,927.8**	1,599.6	1,143.8	923.9	2,412.5
Other	**33.3**	36.8	35.1	5.3	0.2
Total	**2,119.9**	1,798.9	1,332.6	1,076.7	2,615.9
Insured annuities (general funds)	**1,936.4**	1,905.1	1,652.3	1,639.7	1,562.2
Total	**4,056.3**	3,704.0	2,984.9	2,716.4	4,178.1
Total excluding CMA[12]	**4,056.3**	3,704.0	2,984.9	2,687.6	2,657.2

Investments

	2004	2003	2002	2001	2000
Value and distribution of investments					
Book value of investments	**10,609.3**	9,925.5	8,934.9	8,570.7	8,260.9
Market to book value of investments	**110.7%**	109.8%	109.1%	107.0%	107.0%
Distribution of investments by asset category					
Bonds	**57.2%**	55.7%	52.5%	48.9%	46.9%
Mortgages	**23.5%**	25.1%	28.3%	31.0%	33.0%
Stocks	**10.2%**	9.4%	8.1%	8.2%	8.6%
Real estate	**4.2%**	4.3%	4.9%	5.0%	4.8%
Other	**4.9%**	5.5%	6.2%	6.9%	6.7%
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%
Distribution of investments by region					
Atlantic provinces	**5.1%**	4.6%	5.3%	4.4%	4.0%
Quebec	**49.6%**	50.1%	50.5%	49.3%	49.8%
Ontario	**20.7%**	20.5%	20.3%	20.5%	20.1%
Western provinces	**17.3%**	17.9%	18.1%	18.5%	20.2%
Outside Canada	**7.3%**	6.9%	5.8%	7.3%	5.9%
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%

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

Investments (continued)

	2004	2003 (restated[1])	2002 (restated[2])	2001	2000
Impaired investments and provisions					
Gross impaired investments (excluding insured loans)	**47.6**	60.5	60.4	39.8	35.7
Provisions for losses	**(39.1)**	(40.7)	(41.1)	(15.7)	(14.3)
Net impaired investments (excluding insured loans)	**8.5**	19.8	19.3	24.1	21.4
Net impaired investments as a % of total investments	**0.08%**	0.20%	0.22%	0.28%	0.26%
Provisions as a % of gross impaired investments	**82.0%**	67.3%	68.0%	39.1%	39.9%
Bonds					
Book value of bond portfolio	**6,074.5**	5,527.9	4,686.4	4,193.2	3,874.5
Market to book value of the bond portfolio	**116.0%**	115.2%	115.7%	111.9%	113.1%
Distribution by credit rating					
Rating - AAA	**9.8%**	11.3%	12.2%	12.4%	10.9%
Rating - AA	**17.1%**	15.7%	15.0%	13.1%	14.8%
Rating - A	**65.7%**	66.6%	65.0%	65.9%	66.9%
Rating - BBB	**7.2%**	6.3%	7.7%	8.6%	7.2%
Rating - BB and lower	**0.2%**	0.1%	0.1%	0.0%	0.2%
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%
Distribution by category of issuer					
Governments	**64.5%**	59.2%	55.1%	52.4%	51.9%
Municipalities	**1.7%**	1.8%	2.5%	1.2%	1.7%
Public corporations	**22.4%**	26.0%	28.2%	32.9%	34.1%
Private corporations	**11.4%**	13.0%	14.2%	13.5%	12.3%
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%
Other quality measures					
Delinquency rate	**0.02%**	0.03%	0.03%	0.03%	0.00%
Mortgages					
Book value of the mortgage portfolio	**2,491.8**	2,490.4	2,526.5	2,660.4	2,729.6
Market to book value of the mortgage portfolio	**102.8%**	103.2%	103.5%	103.4%	101.1%
Distribution by type of property					
Residential	**16.4%**	17.1%	18.4%	18.7%	19.0%
Multi-residential	**59.5%**	55.6%	52.5%	51.3%	49.7%
Non-residential	**24.1%**	27.3%	29.1%	30.0%	31.3%
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%
Distribution by category					
Insured loans	**52.8%**	48.6%	45.3%	40.9%	39.3%
Conventional loans	**47.2%**	51.4%	54.7%	59.1%	60.7%
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%
Other quality measures					
Delinquency rate	**0.32%**	0.86%	0.74%	0.48%	0.23%
Proportion of delinquent loans which are insured	**81.0%**	42.2%	49.0%	23.3%	80.4%
Stocks					
Book value of the stock portfolio	**1,081.1**	930.3	720.1	703.2	707.9
Market to book value of the stock portfolio	**104.6%**	102.9%	96.1%	98.2%	102.1%
Distribution of stocks by category					
Common	**4.1%**	4.1%	6.1%	7.4%	4.6%
Preferred	**21.6%**	24.8%	32.4%	29.8%	31.6%
Market indices	**12.0%**	11.1%	15.3%	19.3%	13.6%
Investment fund units	**62.3%**	60.0%	46.2%	43.5%	50.2%
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%

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

Investments (continued)

	2004	2003 (restated[1])	2002 (restated[2])	2001	2000
Real estate					
Book value of the real estate portfolio	**444.5**	425.7	436.0	424.9	392.3
Market to book value of the real estate portfolio	**108.6%**	104.9%	104.5%	106.3%	106.1%
Occupancy rate	**95.2%**	93.9%	92.1%	96.3%	96.7%

Miscellaneous information

	2004	2003	2002	2001	2000
Market data					
Number of common shares outstanding (in millions)	**39.7**	39.3	37.7	37.7	37.6
Share price at the end of the period (in dollars)	**$ 54.99**	$ 43.80	$ 39.49	$ 46.65	$ 40.65
Average share price (in dollars)	**$ 46.88**	$ 37.37	$ 40.35	$ 42.31	$ 35.44
Market capitalization	**2,185.6**	1,721.3	1,486.8	1,756.3	1,527.7
Book value per outstanding common share (in dollars)	**$ 30.53**	$ 27.22	$ 22.92	$ 20.98	$ 18.72
Dividend per common share (in dollars)	**$ 0.82**	$ 0.70	$ 0.64	$ 0.60	$ 0.15
General expenses					
General expenses	**257.8**	237.4	229.9	212.0	205.4
Human resources (number of employees)					
Life insurance companies	**2,159**	2,138	2,110	2,035	1,948
General insurance company	**346**	329	305	237	178
Other companies of the Group	**121**	36	19	9	8
Total	**2,626**	2,503	2,434	2,281	2,134
Number of Career representatives	**1,379**	1,309	1,310	1,270	1,218

1 2003 data were restated after the Company realized that the amount that could be transferred from the participating policyholders' account to the retained earnings, pursuant to the *Insurance Companies Act*, had been understated each year since 1981, following the incorrect application of the calculation method.

2 2002 data have been restated to reflect the change in accounting policies for the stock option plan.

3 The unusual item in 2000 represents the net impact of the application of income tax reductions announced during the year in relation to the future income tax liabilities as at January 1, 2000.

4 Goodwill expense has been adjusted pursuant to the introduction of new accounting rules with respect to the amortization of goodwill.

5 In the first quarter of 2002 the Company decided to take a full provision on its entire investment in Teleglobe bonds. This reduced the GAAP reported earnings by $27.9 million with a tax offset of $8.5 million for a net reduction of $19.4 million.

6 The restructuring charge results from the Company's decision, announced on December 1, 2004, to integrate the operations of its National Life subsidiary into those of the parent company.

7 Minimum continuing capital and surplus requirements.

8 Industrial Alliance Trust Securities.

9 Equals the total of the subordinated debentures and the other debts (IATS) divided by the capital structure.

10 Obtained by dividing pre-tax income, before financing expenses, by financing expenses.

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

Individual Insurance: first-year annualized premiums

Individual Annuities: accounting premiums for the general funds and for the segregated funds

Group Insurance: first-year annualized premiums for Employee Plans, including Administrative Services Only (ASO) contracts, gross premiums for Creditor Insurance and accounting premiums for Special Markets Group.

Group Pensions: accounting premiums for the general funds and for the segregated funds.

12 The Canadian Medical Association (CMA) business is excluded from data (sales and assets) for 2000-2001. This business has a negligible impact for subsequent years. The CMA business has been transferred to MD Life and is now presented at the equity value.

Board of Directors

RAYMOND GARNEAU
O.C., M.C.Sc., L.E.Sc.

Chairman of the Board since 1996
Board member since 1988

Economist
Corporate Director

GILLES LAROCHE
Eng.

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

Engineer
Corporate Director

MARY C. ARNOLD
FCA

Board member since 2003

Chartered Accountant
President of Richford Holdings Ltd., an investment consulting firm

LOUIS BERNARD
O.Q., B.A., LL.L., M.A., Ph.D.

Board member since 1999

Lawyer
Consultant at Louis Bernard Consultant Inc.

PIERRE BRODEUR

Board member since 1999

Chairman of the Board of Commensal Inc. and Corporate Director

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

Board member since 1999

Actuary
President and CEO of Industrial Alliance Insurance and Financial Services Inc.

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

Board member since 1996

Degree in administrative sciences
President of Lacroix Dutil Investments Inc., a real estate firm

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

Board member since 1997

Professor
Executive Director of Robert-Giffard Hospital, a university mental health institute

■ ◆

LISE LACHAPELLE
B.B.A.

Board member since 1995

Economist
Corporate Strategy Consultant

▼

ROBERT LACROIX
B.Sc., M.Sc., Ph.D.

Board member since 2004

Economist
Rector of the University of Montreal

■ ●

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

Board member since 1997

Lawyer and M.B.A. degree
President and Chairman of the Board of Mazarin Inc., a company operating in the chrysotile sector

▼

FRANCIS P. MCGUIRE

Board member since 2001

Career Director
President and Chief Executive Officer of Major Drilling Group International Inc., a multinational drilling company

●

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

Board member since 2002

Degree in sciences and an M.B.A.
President of J.P. & Associates Ltd., a strategic consulting group

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

Board member since 1991

Lawyer
Chairman of the Board and Senior Associate at the Cassels Brock and Blackwell LLP law firm

■ ●

GUY SAVARD
C.M., FCA

Board member since 1995

Chartered Accountant
Chairman and Vice-Chairman of the Board of Merrill Lynch Canada Inc.'s Quebec operations

■ Executive Committee

● Investment Committee

▲ Audit Committee

◆ Human Resources and Corporate Governance Committee

▼ Ethics Committee

Secretary of the Board
GEORGES SMITH
LL.L., F.C.G.A.

Assistant Secretary
JENNIFER DIBBLEE
B.Sc., B.C.L., LL.B.

Industrial Alliance Group Management Team

Industrial Alliance Insurance and Financial Services Inc.

▲ 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., CMA, F.L.M.I.
Vice-President and General Manager
Administration
Individual Insurance and Annuities

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
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

Renée Laflamme – CA, CFA
Vice-President, Mortgage Loans

▲▲ 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

Johnny Roy – RLU, Fin. Pl.
Vice-President, Sales
Career Section

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

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

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

▲▲ Refat A. Jiwani – F.C.C.A., CMA, F.L.M.I.
Vice-President and Corporate Controller

David Q. Potter – CLU
Vice-President, Sales
National Accounts

Vince Reilly – P.F.A., CLU, CH.F.C.
Vice-President, Sales
Prairies

Sharon Smith – B.A.
Vice-President
Individual Administration

Brian E. Wrixon – B.A., CLU
Vice-President, Professional Development

▲ Member of the Planning Committee

▲▲ Responsibilities on the Group level (life companies)

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
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

Greg McCormack – F.S.A., F.C.I.A.
Vice-President
Marketing and Administration, SAL

Gordon A. Robinson – M.A.
Vice-President and Controller

David L. Stewart
Vice-President, Sales, SAL

FundEX Investments Inc.

David Vowles – M.B.A.
President and Chief Operating Officer

Bobbisue Edmondson – B.A.
Senior Vice-President, Operations

Robert Corbett
Vice-President, Sales

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

Lise Douville
Executive Vice-President

Tom Lynch
Executive Vice-President

*Mr. Scandiffio is also president of Industrial Alliance Fund Management Inc., a new subsidiary of the Industrial Alliance Group.

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▲ Regional office for both Industrial Alliance Insurance and Financial Services and Industrial Alliance *Pacific* Insurance and Financial Services.

Shareholder Information

How To Reach Us

To reach us, there are three different options at your disposal, depending on the type of information you wish to obtain.

- For questions regarding your shares, please contact Industrial Alliance's share transfer agent:
  The Computershare Trust Company of Canada
  Telephone: (514) 982-7888
  1-877-684-5000 (toll-free)
  E-mail: inalco@computershare.com
- For questions regarding 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.
- 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

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…

Industrial Alliance and the elephant share exceptional strength. Both are highly energetic and can easily take on even the most colossal of tasks.

Industrial Alliance and the elephant represent solidity and inspire confidence. They are also a reassuring presence in their surrounding environment.

Being a century old company, Industrial Alliance is also known, like the elephant, for its longevity and proverbial memory.

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.

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.

This annual report was jointly produced by the following Industrial Alliance departments: Accounting, Communications, Investor Relations and Public Relations.
For more information or to obtain additional copies of this annual report, please contact the Investor Relations Department whose contact information is provided on page 120.

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