

2005 ANNUAL REPORT

Breaking New Ground

FROM INSURANCE TO WEALTH MANAGEMENT



INDUSTRIAL ALLIANCE
INSURANCE AND FINANCIAL SERVICES INC.

Breaking New Ground

FROM INSURANCE TO WEALTH MANAGEMENT


A Diverse and Dynamic Distribution Platform

Insurance	Mutual Fund Dealers Association (MFDA)	Investment Dealers Association (IDA)	Bank
Industrial Alliance Industrial Alliance Pacific	Investia FundEX	Industrial Alliance Securities	Laurentian Bank Financial Services (10-year distribution agreement)
Over 15,000 financial advisors			

Building Scale in the Wealth Management Sector

Eleven Acquisitions over Last Five Years

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		2001 → 2002 → 2003 → 2004 → 2005 →					→	→	↓			
	Segregated fund manufacturer		Assets¹	\$2,928 M	\$2,795 M	\$3,262 M	\$3,872 M	\$4,851 M	Assets under management Among the top 20 in the Canadian retail fund market	Invested capital: \$328 million	BENEFITS FOR INDUSTRIAL ALLIANCE ■ New area of growth ■ High growth sector ■ Higher ROE potential ■ Enhanced diversification of earnings	
	Mutual fund manufacturer		Assets	—	—	\$94 M	\$1,019 M	\$5,660 M				
			Acquisitions	—	—	Co-operators Mutual Funds	BLC-Edmond de Rothschild Asset Management	Clarington Corporation				
 	Mutual fund broker-dealers		Assets	\$304 M	\$436 M	\$1,011 M	\$5,731 M	\$7,440 M	Assets under administration			
			Acquisitions	Concorde Financial Group (merged with Investia)	25% of FundEX Investments	Global Allocation Financial Group (merged with Investia)	Ownership in FundEX Investments increased to 83.5%	—				
	Securities broker-dealer		Assets	—	\$313 M	\$450 M	\$896 M	\$1,436 M				
			Acquisitions	—	ISL-Lafferty Securities BNP (Canada) Securities Leduc & Associates Securities (Canada)	—	Lynch Investments	KingsGate Securities				

¹Assets in the retail market

Highlights

(Consolidated financial data¹)

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2005	2004	Variation
Profitability			
Net income attributable to shareholders	132.2	155.1	(15 %)
Net income attributable to shareholders, adjusted ²	184.2	161.2	14 %
Earnings per share (diluted)			
According to net income	\$1.65	\$1.95	(\$0.30)
According to adjusted net income ²	\$2.30	\$2.02	\$0.28
Rate of return on common shareholders' equity			
According to net income	10.3 %	13.6 %	—
According to adjusted net income ²	14.0 %	14.1 %	—
Business Growth			
Total premiums	3,171.1	2,852.4	11 %
Sales by line of business ¹			
Individual Insurance	141.3	139.9	1 %
Individual Wealth Management	1,460.2	906.8	61 %
Group Insurance			
Employee Plans	52.3	55.7	(6 %)
Creditor Insurance	158.8	132.6	20 %
Special Markets Group (SMG)	87.4	79.7	10 %
Group Pensions	564.8	461.1	22 %
Financial Position			
Capitalization	1,753.9	1,530.8	15 %
Assets under management/administration			
Assets under management			
General fund	11,972.9	11,030.8	9 %
Segregated funds	7,348.8	5,913.6	24 %
Mutual funds	5,672.7	1,018.5	457 %
Other	785.9	872.0	(10 %)
Total	25,780.3	18,834.9	37 %
Assets under administration	12,390.9	9,641.1	29 %
Total	38,171.2	28,476.0	34 %
Solvency ratio (MCCSR ¹)	188 %	222 %	—
Debt to capital ratio ¹	21.3 %	19.6 %	—
Quality of Investments			
Net impaired investments as a % of total investments	0.07 %	0.08 %	—
Bonds: rating BB and lower as a % of the portfolio	0.36 %	0.24 %	—
Mortgage loans: delinquency rate			
Insured loans	0.50 %	0.50 %	—
Conventional loans	0.05 %	0.13 %	—
Total	0.30 %	0.32 %	—
Stocks: market to book value ratio of the stock portfolio	108.0 %	104.6 %	—
Real estate: occupancy rate	96.8 %	95.2 %	—
Human Resources – Number of Employees			
Life insurance companies	2,115	2,159	(44)
General insurance company	367	346	21
Other companies of the Industrial Alliance Group	264	121	143
Total	2,746	2,626	120

¹ Refer to the Notice on page 18, the Glossary on page 97 for definitions and to the Five-Year History on page 91 for further financial information.

² In 2005, the net income attributable to shareholders, adjusted, excludes the Norshield provision (\$52.1 million after tax), the restructuring charges for the National Life integration (\$4.1 million after tax) and the gain resulting from a change of reinsurer (\$4.2 million after tax). In 2004, the net income attributable to shareholders, adjusted, excludes the restructuring charges for the National Life integration (\$6.1 million after tax).

Main Achievements in 2005

Market Guidance and Main Areas of Development for 2006

Main Achievements in 2005

- **Acquisition of Clarington Corporation** — Clarington is a mutual fund management company that was managing \$4.4 billion in assets as at December 31, 2005. This acquisition will enable Industrial Alliance to become a scale player in the mutual fund market throughout Canada.
- **Integration of BLC-Edmond de Rothschild Asset Management Inc. (BLCER)** — BLCER was a mutual fund management company that was acquired by Industrial Alliance on December 31, 2004. It was renamed Industrial Alliance Fund Management and its operations were integrated with those of Industrial Alliance Mutual Funds. BLCER was managing some \$900 million in mutual fund assets when it was acquired.
- **Integration of National Life** — The operations of National Life, a life and health insurance subsidiary of Industrial Alliance, have been integrated with those of the parent company. This integration will enable Industrial Alliance to improve its competitiveness.
- **Restructuring the distribution networks in the retail sectors** — The retail sector distribution networks have been restructured by network rather than by company. This restructuring will enable Industrial Alliance to improve its efficiency.
- **Pursued development outside Quebec** — In 2005, sales of Group Pension accumulation products and Group Insurance employee plans were higher outside Quebec than in Quebec, a first for these sectors.
- **Acquisition of KingsGate Securities** — KingsGate is a full-service securities brokerage firm located in Ontario. It was administering some \$300 million in assets when it was acquired. This acquisition will enable Industrial Alliance to pursue its Canada-wide development in the securities market.
- **Issuance of \$125.0 million in preferred shares** — At the beginning of 2006, Industrial Alliance issued \$125.0 million in preferred shares as part of the Clarington acquisition. This issue closed on February 24, 2006.

Market Guidance for 2006

- **Rate of return on common shareholders equity (ROE):** between 13% and 15%
- **Earnings per share:** growth of some 10%
- **Sales:** growth of five percentage points higher than the industry
- **Dividend:** payout ratio of 25% of net sustainable earnings
- **Solvency ratio:** between 175% and 200% (MCCSR)
- **Effective tax rate:** around 32.5%
- **Excess capital:** \$62 million as at December 31, 2005, considering the issue of \$125.0 million in preferred shares, the anticipated buy-back of 1.8 million Industrial Alliance common shares and the anticipated reimbursement of the \$62.9 million Clarington debenture. The excess capital should gradually grow during the year, since the Company only uses two thirds of its net income for organic growth and to pay dividends to shareholders.

Main Areas of Development for 2006

- Pursue expansion in the wealth management sector
- Continue to develop the multi-channel distribution networks
- Pursue geographic diversification in Canada
- Maximize the synergies within the Industrial Alliance Group companies in order to reduce unit costs

Message from the Chairman of the Board



John LeBoutillier
Chairman of the Board

I am pleased to deliver my first message as Chairman of the Industrial Alliance Board of Directors. I had the honour of succeeding Raymond Garneau at the Company's last annual meeting that was held on May 4, 2005. I wish to begin by underlining my predecessor's important contribution to Industrial Alliance's development. By his leadership and unwavering commitment, Mr. Garneau was able to mobilize everyone towards the Company's success. On behalf of all board members, I wish to extend my heartfelt thanks, and take this opportunity to wish him a happy and active retirement.

Since I joined the Industrial Alliance Board of Directors in 1997, many changes have taken place at the Company. In 2000, I witnessed the Company's transformation from a mutual company to a public company. I also watched the Company continue to take root, little by little, in all regions of the country. And I was able to observe its careful and progressive expansion in the wealth management sector.

Over the years, quietly, in a tradition all its own, Industrial Alliance went from a life and health insurance company with profound roots in Quebec to a financial institution with ever broadening Canada-wide ramifications. Today, Industrial Alliance is one of the most solid and vigorous financial institutions in the country, with highly diversified growth and profit sources.

Industrial Alliance's progression clearly demonstrates the Company's great ability to adapt to the conditions of its changing environment. While this ability to adapt certainly reflects the depth and dynamic approach of its management team, it also testifies to the commitment and professionalism of all its employees and representatives.

In the spirit that has defined Industrial Alliance's progress over the years, 2005 once again confirms the Company's ability to exploit new business opportunities. The acquisition of Clarington Corporation, a mutual fund company, which took place almost a year to the day after the acquisition of another large mutual fund company, BLC-Edmond de Rothschild Asset Management, has propelled Industrial Alliance to the rank of scale player in the Canadian mutual fund sector.

Corporate Governance and Transparency

Over the years, the Industrial Alliance Board of Directors has fostered a corporate culture based on sound governance and transparency, which in itself constitutes a safeguard against possible breaches or abuse.

In order to improve governance and remain a forerunner in this regard, the Company once again disclosed new information in its information circular in 2005, particularly with respect to the Board's role and activities, as well as pertaining to the objectives and remuneration of designated officers, including those of the president and chief executive officer.

The Board of Directors also reduced from five to two years the period that new board members dispose of to comply with the minimum share ownership policy with regards to Company shares.

In addition, the Board modified its policy regarding loans granted to board members for the purposes of acquiring shares by eliminating the possibility of obtaining new loans in the future.

Finally, since 2003, all board members who represent shareholders as well as those who represent participating policyholders are elected on an individual basis.

Board Activities

Over the course of 2005, the Board of Directors met nine times and the Board's various committees held a total of twenty-six meetings. The board member participation rate at these different meetings was 92% (95% in the previous year). Board meeting absences were largely due to the increased number of special meetings, particularly in the scope of acquisition projects, which were called on very short notice.

At each of its regular meetings, the Board of Directors holds a private session without the participation of management personnel and the president and chief executive officer, who is the only internal manager on the Board. The practice of holding a portion of the meeting without the participation of management personnel was extended in 2005 at the majority of Board committee meetings. As has become customary over the last few years, the Board also held a one-day strategic planning session in 2005 at a different location than where the Board traditionally meets in order to examine the Company's short and medium-term strategic orientations.

In addition to addressing subjects that usually fall under its jurisdiction, such as financial results, acquisitions, investment evaluations and policies, management succession planning and standards of sound business and financial practices, the Board of Directors also discussed various items of current interest, such as life insurance product distribution practices and

certain practices in the area of investments, such as frequent and late trading, with a view to ensuring that the methods in practice at Industrial Alliance comply with the highest standards in the industry.

The Board also continued to improve its methods with regards to the recruitment of new board members and the evaluation of both the board and its members. Procedures are now more formal and specific criteria has been established for the selection of new board members.

Changes in the Board of Directors

During the year, Louis Bernard tendered his resignation as board member in order to take on new challenges in the world of politics. Mr. Bernard had been a board member since March 1999 and was a very active member of the Audit Committee. His business experience, professional expertise and commitment towards the Company made him a heeded and respected board member.

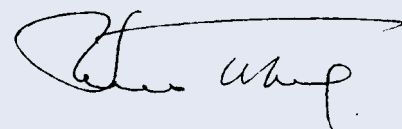
To fill this position, the Board has appointed L.G. Serge Gadbois, who will also sit on the Audit Committee. Mr. Gadbois' training as a chartered accountant and experience acquired during his extensive career at Metro Inc. ensure that his candidacy fully satisfies the new criteria that has been set out for board members, particularly with regards to financial expertise.

Conclusion

Since Industrial Alliance became a public company, the Board of Directors has looked after the interests of its shareholders in addition to those of its clients. It is in this spirit that the Board supports, and will continue to support, initiatives by management aimed at creating long-term value for shareholders, which in turn can only be achieved by improving the products and services offered to its clientele.

In an environment that has undergone considerable consolidation in recent years, Industrial Alliance has been able to stand out both by its entrepreneurial culture and its regard for ethics and transparency. It is to these very values that Board members fully adhere. I for one, in my role as Chairman of the Board, intend to rally the support of the Board in order to accompany management in the realization of its objectives.

Thank you.



President and Chief Executive Officer's Report



Yvon Charest
President and Chief Executive Officer

2005 was an important year for Industrial Alliance, but also one that was full of lessons.

Important because, with the purchase of Clarington Corporation, we were able to break new ground in the mutual fund sector.

Important because, with the integration of National Life, we were able to enhance our competitiveness.

Important because, with the reorganization of retail sector networks, we were able to optimize our distribution structure.

Important because, with sales outside Quebec surpassing those in the province in the majority of business lines, we were able to pursue our geographic expansion.

But 2005 also held many lessons because, with the loss of the sums that were entrusted to the Norshield fund management firm, we were made to realize that control systems are never as fail-safe as we would like to believe and that it is important to do everything possible to preserve our clients' trust.

Financial Results

Let us begin with this last item – the loss of the sums entrusted to Norshield – because it is this event that cast a shadow on what could have been one of the most productive years in our history.

If 2005 was difficult from a financial perspective, it is entirely due to the provision we were forced to take to cover the amounts our clients had invested in hedge funds managed by Norshield. This provision resulted in a \$52.1 million reduction to the Company's net income.

Despite this provision, we ended the year with a shareholder net income of \$132.2 million, compared to \$155.1 million in 2004.

Without this provision, and without two other non-recurring items that offset each other by within \$100,000, we would have ended the year with an adjusted shareholder net income of \$184.2 million. This is our true earning power. This result would have represented a 14% increase in income over the previous year on a comparable basis and translated into an adjusted return on equity of 14.0%, falling right in the middle of our 13% to 15% target range.

But how did we come to having to take this provision?

As you may recall, hedge funds became quite popular at the turn of the millennium. Many of our clients and representatives called for us to include this type of fund in our product line.

After analyzing the situation, we decided to offer this category of fund. We then began looking for a fund manager specialized in this type of investment. Following a thorough search and the usual due diligence, we selected Norshield. Norshield was a recognized fund manager that had been operating for many years. It had a good reputation and the performance of its funds was among the best in the industry.

Today, we know, Norshield proved unworthy of our trust. Like many other investors, we were flabbergasted to learn that almost all of the amounts that had been entrusted to this company were irrecoverable.

Our clients could not have seen this coming. They trusted our judgement when we proposed this fund manager. We therefore did what we felt to be the most honourable thing: we took our clients place as the investor in Norshield's funds and transferred their investments at Norshield to other funds.

In doing so, we prevented our clients from losing their investments and protected both the relationship of trust we have with our clients and the Company's reputation.

We also took measures to help ensure that this type of situation does not occur again in the future. We tightened our selection criteria for choosing external fund managers. We now insist on having direct access to portfolio securities held by the custodian at all times unless the manager is a highly renowned financial institution or has ties with a known financial institution.

The provision that was taken does not alter the Company's financial solidity in any way. Our solvency ratio still sits comfortably within our 175% to 200% target range. As part of the Clarington acquisition, we also successfully completed the issue of \$125 million in preferred shares in February 2006, which was greeted warmly by investors and sold very quickly as well as at a highly attractive price. And we continue to dispose of excess capital, which should in fact increase over the course of the year since we estimate that we will only use approximately two thirds of our net income for organic growth and the payment of shareholder dividends.

The Norshield affair is now behind us. It was a bump in the road, albeit a sizeable one, and a regrettable incident to be sure, but one from which lessons were learned and that in no way changes our potential for growth and profitability, as we intend to show in 2006.

Purchase of Clarington

On a more positive note, 2005 was also marked by one of the Company's most important acquisitions, that of Clarington Corporation. In fact, once we are able to view things in hindsight, we will see that 2003, 2004 and 2005 were pivotal years for Industrial Alliance.

These years were marked by the progressive entry of Industrial Alliance in the mutual fund management sector thanks to three successive acquisitions: Co-operators Mutual Funds in 2003, BLC-Edmond de Rothschild Asset Management in 2004 and Clarington Corporation in 2005. I like to think that where Co-operators opened up the door for us to the world of mutual fund management, BLC-Edmond de Rothschild launched us into this world and Clarington powers us in.

The acquisition of Clarington will allow us to become a scale player in the investment fund market. At the end of 2005, we were managing \$5.7 billion in mutual funds and \$4.8 billion in segregated funds in the retail sector, for a total of \$10.5 billion. We now rank among the top 20 fund managers in Canada in the retail sector and among the top 10 in the independent advisor network.

Up until the purchase of Clarington and with the exception of BLC-Edmond de Rothschild, we had acquired ten or so small companies that were grouped together in the wealth management sector. The Clarington acquisition not only provides us with the scale needed to compete effectively in the investment fund marketplace, it also gives us access to a new area of growth; one that is generally characterized as a high growth and high ROE sector, and which, down the road, will provide the Company with a better diversity of its earnings.

This acquisition did not take place by itself. It was made possible thanks to the rapid integration of BLC-Edmond de Rothschild and the excellent sales results achieved by this new subsidiary in 2005. It was made possible thanks to our prudent capital structure and excess capital that we have accumulated over the years. It was made possible thanks to the excellent performance of our fund managers. And it was made possible thanks to the hard work of a vast team of individuals who were determined to see Industrial Alliance progress.

Integration of National Life

The integration of National Life with the parent company was also an important event for us in 2005.

The integration of National Life, our Toronto-based life insurance subsidiary, was announced at the end of 2004. From a legal standpoint, the integration took place on June 30, 2005, which was in line with our most optimistic scenario. From an operational standpoint, the integration will continue for another year for most systems.

Although, from a human standpoint, it is always difficult to part with colleagues with whom we have worked, sometimes at a distance, for many years, from a competitive standpoint, this integration had become necessary.

Since we are competing against players that are often much bigger than ourselves, we must do everything we can to improve our efficiency and remain competitive. In streamlining our organizational structure, the integration of National Life will allow us to promptly reduce our costs and in turn, compete more effectively.

Our offices in Toronto remain open and the National Life head office has since been renamed the "Toronto Service Centre". More than 250 people still work there; a number that could rise to close to 400, if we include the Clarington employees who may be joining them.

Reorganization of Distribution Networks

In the wake of the integration of National Life, we also decided to optimize our approach with regards to the distribution of retail products.

Industrial Alliance relies on multiple distribution networks for its development. They make up the Company's strength. We therefore restructured our distribution system by network rather than by company. This new approach required the implementation of several major projects, including the integration of the sales teams at the Industrial Alliance Group's three life companies, the marketing of a single line of products in all distribution networks and the harmonization of various systems and administrative procedures.

Despite all of these changes, we were able to close the year with record sales totalling \$141.3 million in the Individual Insurance sector, which represents a 1% increase over the previous year. Although this rise is certainly modest, it is satisfactory nonetheless given the long-term benefits that our new distribution approach should procure.

The Individual Insurance sector is our most important and stable sector. With a market share of 12.7%, we remain an industry leader in the Individual Insurance sector, ranking 4th in Canada in terms of individual insurance sales.

Development outside Quebec

Our final stroke of the year: we continued to make significant strides in our Canada-wide development efforts.

We have been known as a Canada-wide player in the Individual Insurance line of business for many years. Our three other major activity sectors, however, have continued to struggle in order to achieve the same level of recognition. 2005 was therefore particularly fruitful in this respect.

In the Individual Wealth Management sector for example, the Clarington acquisition, which added \$4.4 billion in mutual fund assets, will allow us to achieve a geographic distribution of our activities that is somewhat similar to that of the Canadian population. The purchase of KingsGate Securities, a securities brokerage firm located in Ontario, should equally contribute to our Canada-wide development. KingsGate, which was also acquired in 2005, administered close to \$300 million in assets.

And in both group sectors, Group Insurance and Group Pensions, we were able, for the first time in our history, to generate more sales in 2005 outside Quebec than in this one province alone.

In addition to ensuring an enhanced geographic distribution of our activities, our Canada-wide development also provides us with access to new growth opportunities, particularly in Western Canada, which is currently experiencing a boom.

Challenges

What are our challenges in 2006?

From an organizational standpoint, we must integrate Clarington with our mutual fund activities in order to quickly begin building synergy between our two organizations.

With regards to product distribution, we must continue to grow profitable networks in the retail product and services sector in order to be able to distribute self-manufactured products.

In terms of geographic expansion, we must pursue our development efforts in all regions of the country, particularly in the group sector.

With regards to acquisitions, we must remain attentive in order to be able to seize all business opportunities, both in the insurance sector as well as in the wealth management sector.

But perhaps our main challenge in 2006 will be to deal with the fall in long-term interest rates; a situation that forced us to review our valuation assumptions at the end of 2005. Although the resulting increase to our reserves had no impact on net income for the year because of continued improvements in mortality rates and effective cost control, it could impact expected profitability generated by new sales if we do not adapt our products to this new reality. This is one of the reasons why we slightly lowered our market guidance with respect to earnings per share growth, indicating that we expect earnings per share to grow by approximately 10% in 2006. The challenge we face will be to find just the right balance between our profitability and business growth objectives.

Conclusion

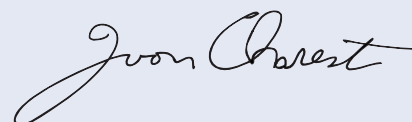
As you undoubtedly saw as you picked up this annual report, the theme we chose to define 2005 is "Breaking New Ground: From Insurance to Wealth Management".

Few events in themselves can transform an organization. At Industrial Alliance, the transformation took place gradually. From a Quebec company, we became a Canada-wide company. And from an insurance company, we have become a financial institution.

This transformation was made possible thanks to the vision and commitment of many generations of employees and representatives. It is to these individuals whom I wish to pay homage today.

I would also like to welcome all employees and representatives who joined us in 2005.

Thank you.



Industrial Alliance Group Planning Committee



Michael L. Stickney
M.B.A., F.S.A., F.C.I.A.

Executive Vice-President
U.S. Development
Industrial Alliance

Normand Pépin
F.S.A., F.C.I.A.

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

René E. Trudeau
B.Sc., F.S.A., F.C.I.A.,
M.A.A.A.

Executive Vice-President
Industrial Alliance, Toronto

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

President and Chief
Executive Officer
Industrial Alliance

Gerald Bouwers
M.Math., F.S.A., F.C.I.A.

President and Chief
Operating Officer
Industrial Alliance *Pacific*

Yvon Côté
CFA

Vice-President and
General Manager
Finance and Investments
Industrial Alliance

Description of Industrial Alliance and its Sectors of Activity

General Description of Industrial Alliance

Created in 1892, Industrial Alliance Insurance and Financial Services Inc. is a life and health insurance company that conducts activities in the insurance and financial services sector.

Industrial Alliance offers a wide range of life and health insurance products, savings and retirement plans, RRSPs, mutual and segregated funds, securities, auto and home insurance, mortgage loans, and other financial products and 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 is present in all regions of the country (see the Industrial Alliance Group organization chart on page 16).

Industrial Alliance insures over 2 million Canadians, employs more than 2,700 people, and manages and administers over \$38 billion in assets.

Industrial Alliance stock is listed on the Toronto Stock Exchange under the ticker symbol IAG. With a market capitalization of \$2.4 billion (at December 31, 2005), Industrial Alliance is among the 100 largest public companies in Canada.

Legal Constitution

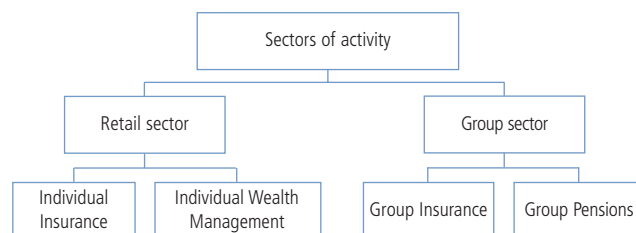
Industrial Alliance is a life and health insurance company regulated by the *Autorité des marchés financiers* in Quebec. On the eve of the year 2000, Industrial Alliance became a public company incorporated under a private law (*Act respecting Industrial-Alliance Life Insurance Company*) that was sanctioned by the Quebec National Assembly on November 26, 1999. This law stipulates that no shareholder can hold, either directly or indirectly, 10% or more of the Company's voting shares.

Sectors of Activity

Industrial Alliance conducts activities in four main sectors. Two of these sectors address the needs of retail customers, Individual Insurance and Individual Wealth Management, and the other two address those of businesses and group clients, Group Insurance and Group Pensions.

All of the Company's wealth management activities, including those in the area of mutual funds and securities, are grouped together in what is now called the "Individual Wealth Management" sector, which replaced the Individual Annuities sector in 2005.

Industrial Alliance also distributes general insurance products that are offered mainly in the province of Quebec by its subsidiary, Industrial Alliance Auto and Home Insurance. The financial results of Industrial Alliance Auto and Home Insurance are presented as part of the parent company's capital income as its activities do not constitute a separate sector for financial reporting purposes.



Diversification by Sector of Activity

Industrial Alliance's operations are well diversified by sector of activity as they are spread out across the insurance and wealth management sectors as well as the retail and group sectors.

Geographic Distribution of Activities

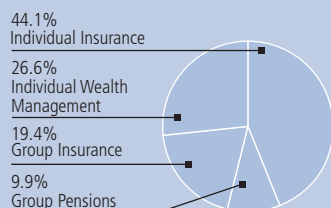
Industrial Alliance conducts activities across Canada as well as in the Northwestern United States. Some twenty years ago, the Company conducted its activities primarily in Quebec. Over the years however, and in line with its geographic expansion strategy, the Company significantly diversified its activities outside Quebec, which now count for approximately half of its business.

Industrial Alliance made an important acquisition at the end of 2005, that of Clarington Corporation, a mutual fund company based in Ontario. This acquisition provides Industrial Alliance with an enhanced footing from which to pursue its Canada-wide development in the mutual fund sector.

The following pages present a description of each of the Company's four main sectors of activity.

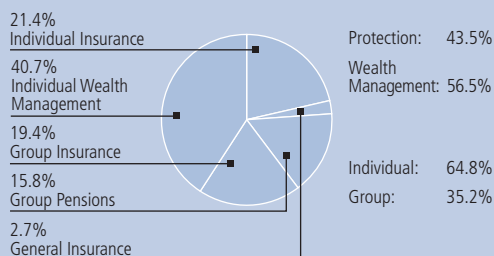
Adjusted Shareholder Net Income¹
by Activity Sector
\$184.2 million

2005



Premiums and Deposits
by Activity Sector
\$3.6 billion

2005

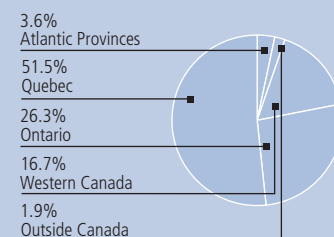


Protection: 43.5%
Wealth Management: 56.5%

Individual: 64.8%
Group: 35.2%

Premiums and Deposits
by Region
\$3.6 billion

2005



¹ Adjustments to data with regards to Company profitability in 2005 are as follows: a \$52.1 million (after tax) provision for the funds managed by Norshield, a \$4.2 million (after tax) gain related to a change in reinsurer, and a \$4.1 million (after tax) restructuring charge for the integration of National Life with the parent company.

Individual Insurance

Industrial Alliance is a Canada-wide leader in the individual insurance market. The Company's market share in terms of individual insurance sales has remained above 10% for many years. In 2005, Industrial Alliance ranked 4th in Canada with a market share of 12.7%.

The Individual Insurance sector is the Company's main sector of activity, as well as its oldest, as Industrial Alliance has been distributing retail products since its inception in 1892.

In the Individual Insurance sector, Company products are marketed across Canada through the Industrial Alliance Group's two life insurance companies: Industrial Alliance (the parent company whose head office is located in Quebec City) and Industrial Alliance *Pacific* (its Vancouver-based subsidiary). These two companies, which are largely integrated, distribute the same line of products and employ the same administrative systems to manage contracts. Industrial Alliance distributes Industrial Alliance Group products mainly in Quebec, Ontario and the Atlantic Provinces, while Industrial Alliance *Pacific* conducts activities mainly in Western Canada as well as in Ontario.

Products and Services

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

Distribution Networks

- Career Agents network: Dedicated Industrial Alliance agents
- General Agents network: Insurance brokers
- National Accounts network: Mutual fund and securities brokers

Relative importance of the sector

	Value	Proportion of Company total
Adjusted net income ¹	\$81.3 million	44.1%
Premiums	\$768.7 million	21.4%

Market position

	Sales (2005)	Premiums (2004)
Rank	4 th	4 th
Market share	12.7%	7.6%

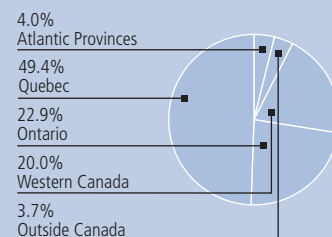
Note – In the Individual Insurance sector, sales are defined in terms of first-year annualized premiums.

¹ Adjustments to data with regards to Company profitability in 2005 are as follows: a \$52.1 million (after tax) provision for the funds managed by Norshield, a \$4.2 million (after tax) gain related to a change in reinsurer, and a \$4.1 million (after tax) restructuring charge for the integration of National Life with the parent company.

Premiums by Region

\$768.7 million

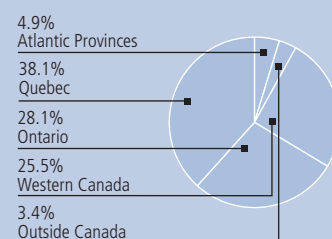
2005



Sales by Region

\$141.3 million

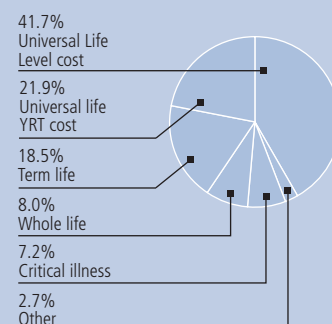
2005



Sales by Product

\$141.3 million

2005



Sales by Distribution Network

\$141.3 million

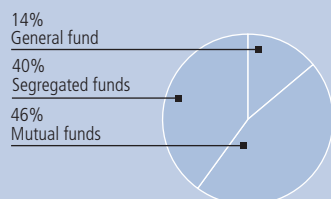
2005



Individual Wealth Management

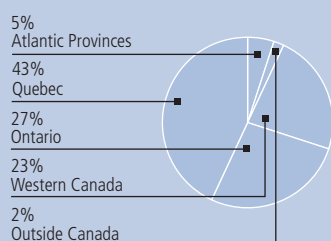
Assets Under Management by Product Category (including Clarington) \$12.2 billion

As at December 31, 2005



Assets Under Management by Region (including Clarington) \$12.2 billion

As at December 31, 2005



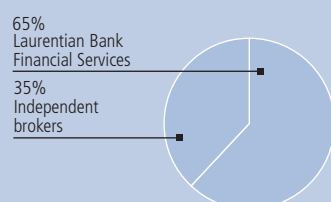
Sales by Distribution Network General Fund and Segregated Fund Products \$1.0 billion

2005



Sales by Distribution Network Mutual Funds \$412.6 million

2005



In the Individual Wealth Management sector, the Company markets two large families of products: savings products, that offer a wide range of investment options in which clients can invest, and retirement products.

The Company's self-manufactured Individual Wealth Management products are marketed Canada-wide by the Industrial Alliance Group's two life insurance companies, Industrial Alliance (the parent company) and Industrial Alliance *Pacific*, as well as through the Company's recently created mutual fund subsidiary, Industrial Alliance Fund Management.

Industrial Alliance also operates as a mutual fund and securities broker-dealer through its Investia Financial Services and FundEX Investments subsidiaries, for mutual funds, and its Industrial Alliance Securities subsidiary, for securities.

In 2005, Industrial Alliance changed the name of its Individual Annuities sector to the "Individual Wealth Management" sector in order to reflect the Company's progression into this sector, particularly in the mutual fund and securities market.

Products and Services

Savings Products

- Registered retirement savings plans (RRSP)
- Retirement savings plans (RSP)
- Registered education savings plans (RESP)
- Locked-in retirement accounts (LIRA)

Retirement Plans

- Registered retirement income funds (RRIF)
- Life income funds (LIF)
- Life annuities
- Fixed-term annuities

Investment Options

- Guaranteed interest contracts
- Segregated funds
- Mutual funds
- Securities

Distribution Networks

General Fund and Segregated Fund Products

- Career Agents network: Dedicated Industrial Alliance agents
- General Agents network: Insurance brokers
- National Accounts network: Mutual fund and securities brokers

Mutual Funds

- Laurentian Bank Financial Services
- Mutual fund networks affiliated with Industrial Alliance
 - Investia
 - FundEX
 - Industrial Alliance Securities
- Other independent advisors

Relative importance of the sector

2005

	Value	Proportion of Company total
Adjusted net income ¹	\$49.0 million	26.6%
Premiums and deposits	\$1,460.2 million	40.7%

Market position Segregated funds

2005

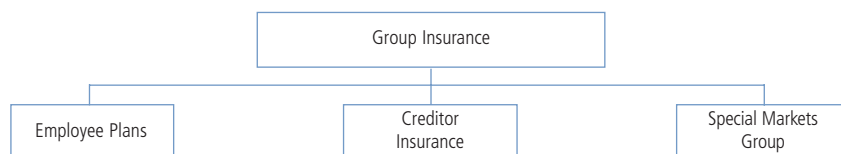
	Net sales	Assets
Rank	3 rd	4 th
Market share	15.8%	8.3%

Note – In the Individual Wealth Management sector, sales are defined in terms of premiums for the general fund and segregated funds, and in terms of deposits for mutual funds.

¹ Adjustments to data with regards to Company profitability in 2005 are as follows: a \$52.1 million (after tax) provision for the funds managed by Norshield, a \$4.2 million (after tax) gain related to a change in reinsurer, and a \$4.1 million (after tax) restructuring charge for the integration of National Life with the parent company.

Group Insurance

In the Group Insurance sector, the Company conducts its activities in three market segments: Employee Plans, Creditor Insurance and Special Markets Group (SMG).



Relative importance of the sector
2005

	Value	Proportion of Company total
Adjusted net income ¹	\$35.7 million	19.4%
Premiums	\$694.9 million	19.4%

Employee Plans

In the Employee Plans market segment, Industrial Alliance offers a wide range of products and services that are available on an insured, experience or administrative services only (ASO) contract basis. Since January 1, 2004, these products and services are distributed under a single banner, that of Industrial Alliance.

Products

- Life, accident, accidental death and dismemberment (AD&D) insurance
- Health insurance (including insurance for medical expenses)
- Dental insurance
- Short and long-term disability insurance
- Critical illness and home care insurance
- Medical assistance outside Canada

Other Services

- Health spending accounts
- Employer and employee support programs
 - Employee assistance programs
 - Workforce management programs
 - Drug payment cards
 - Electronic data interchange (EDI) for dental claims
- Web@dmin: Transaction-driven website for plan administrators, members and business partners
- Solution Plus: Group insurance for small and medium-sized businesses
- Multinational pooling

Markets

- Target market: Medium-sized businesses (50 to 1,000 employees)
- Other markets
 - Large companies (over 1,000 employees)
 - Small companies (under 50 employees)
- Unions
- Professional associations

Market position

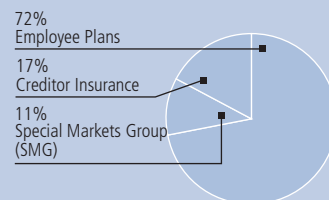
	Total market		Target market (50 to 1,000 employees)	
	Sales (2005)	Premiums (2004)	Sales (2005)	Premiums (2004)
Rank	6 th	6 th ²	5 th	5 th
Market share	4.0%	2.6%	8.1%	4.3%

¹ Adjustments to data with regards to Company profitability in 2005 are as follows: a \$52.1 million (after tax) provision for the funds managed by Norshield, a \$4.2 million (after tax) gain related to a change in reinsurer, and a \$4.1 million (after tax) restructuring charge for the integration of National Life with the parent company.

² Rank among Canadian life insurance companies.

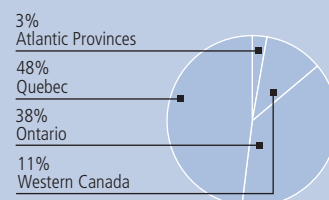
Premiums and Premium Equivalents
by Market Segment
\$797.8 million

2005



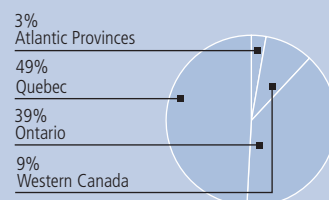
Sales by Region
\$52.3 million

2005



Premiums by Region
\$475.4 million

2005



Distribution Networks

- Specialized brokers
- Actuarial consulting firms

Sales Offices

- Halifax, Quebec, Montreal, Toronto, Calgary and Vancouver

Note – For Employee Plans, sales are defined in terms of first-year annualized premiums, including premium equivalents (ASO contracts).

Creditor Insurance

In addition to marketing products in the Employee Plans market segment, the Group Insurance sector also distributes creditor insurance products to automobile dealerships and recreational vehicle suppliers. These products are marketed through an exclusive Canada-wide direct distribution network by a division of Industrial Alliance *Pacific*, Industrial Alliance's Vancouver-based subsidiary.

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

Products

- Life insurance
- Disability insurance
- Critical illness insurance

Clientele

- Clients of automobile dealerships and recreational vehicle suppliers (products marketed by a division of Industrial Alliance *Pacific*)
- Clients of financial institutions (products marketed by Industrial Alliance, the parent company)

Distribution Networks

- Direct and captive Canada-wide distribution network

Sales Offices

- Halifax, Montreal, Toronto, Winnipeg, Edmonton and Vancouver

Market position 2005

	Rank	Market share
Sales	1 st	Over 40%

Note – In the Creditor Insurance sector, sales are defined in terms of gross premiums (premiums before reinsurance).

Special Markets Group (SMG)

Special Markets Group (SMG) is a division of Industrial Alliance *Pacific* that specializes in certain group insurance niche market segments whose needs are not well served by traditional group insurance carriers.

Products and Clientele

- Accidental death and dismemberment (AD&D) insurance for employers and associations
- Travel medical and health insurance through distribution partners
- Student health insurance through student associations
- Term life insurance for alumni associations and other affinity groups

Distribution Networks

- Brokers
- Distribution partners

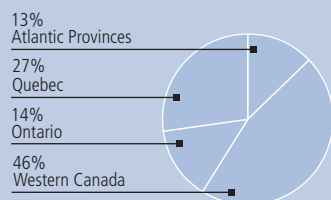
Sales Offices

- Montreal, Toronto, Calgary and Vancouver

Note – In the Special Markets Group sector, sales are defined in terms of premiums.

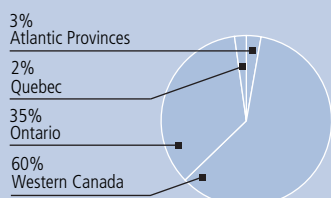
Sales by Region (Automobile Dealer Market) \$136.2 million

2005



Premiums (Sales) by Region \$87.4 million

2005



Group Pensions

The Group Pensions sector offers a wide range of products and services that are adapted to the needs of retirement plan members. All products in this sector are distributed under a single banner, that of Industrial Alliance.

Products and Services

Accumulation products (savings products)

- Defined contribution plans
 - Registered pension plans (RPP)
 - Simplified pension plans (SPP)
 - Group registered retirement savings plans (RRSP)
 - Deferred profit sharing plans (DPSP)
- Defined benefit plans
 - Registered pension plans (RPP)
 - Individual pension plans (IPP)
- Supplemental pension plans (SPP)
- Institutional money management services
 - Active management
 - Canadian bond mandates: Short-term, medium-term, long-term, universe and specialized
 - Canadian equity mandates: Value, growth and specialized
 - Diversified mandates
 - International mandates
 - Passive management
 - Immunization mandates
 - Index mandates

Insured Annuities (retirement plans)

- Selection of insured annuities
- Locked-in retirement accounts (LIRA)
- Registered retirement income funds (RRIF)
- Life income funds (LIF)

Investment Options

- Guaranteed interest contracts
- Segregated funds

Target Market

- Accumulation products: Mainly medium-sized businesses (100 to 1,000 employees)
- Institutional money management services: Mainly pension funds valued from \$25 to \$500 million

Distribution Networks

- Specialized brokers
- Actuarial consulting firms
- Representatives in parent company networks

Sales Offices

- Halifax, Quebec City, Montreal, Toronto, Calgary and Vancouver

Relative importance of the sector

2005

	Value	Proportion of Company total
Adjusted net income ¹	\$18.2 million	9.9%
Premiums	\$564.8 million	15.8%

Market position

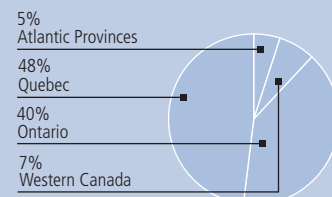
	Sales (2005) ²		Assets (2004)	
	Rank	Market share	Rank	Market share
Accumulation products	5 th	9.0%	n. a.	2.8%
Insured annuities	4 th	15.8%	n. a.	14.1%

¹ Adjustments to data with regards to Company profitability in 2005 are as follows: a \$52.1 million (after tax) provision for the funds managed by Norshield, a \$4.2 million (after tax) gain related to a change in reinsurer, and a \$4.1 million (after tax) restructuring charge for the integration of National Life with the parent company.

² Accumulation product sales are defined as new plan sales and measured in terms of first-year annualized premiums; insured annuity sales are defined as premiums.

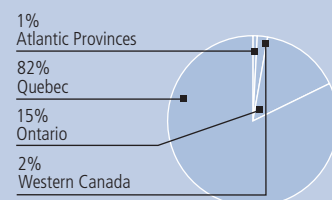
New Plan Sales² Accumulation Products \$306.0 million

2005



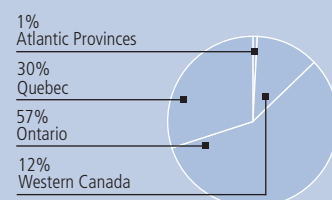
Assets Under Management by Region Accumulation Products \$2.6 billion

2005

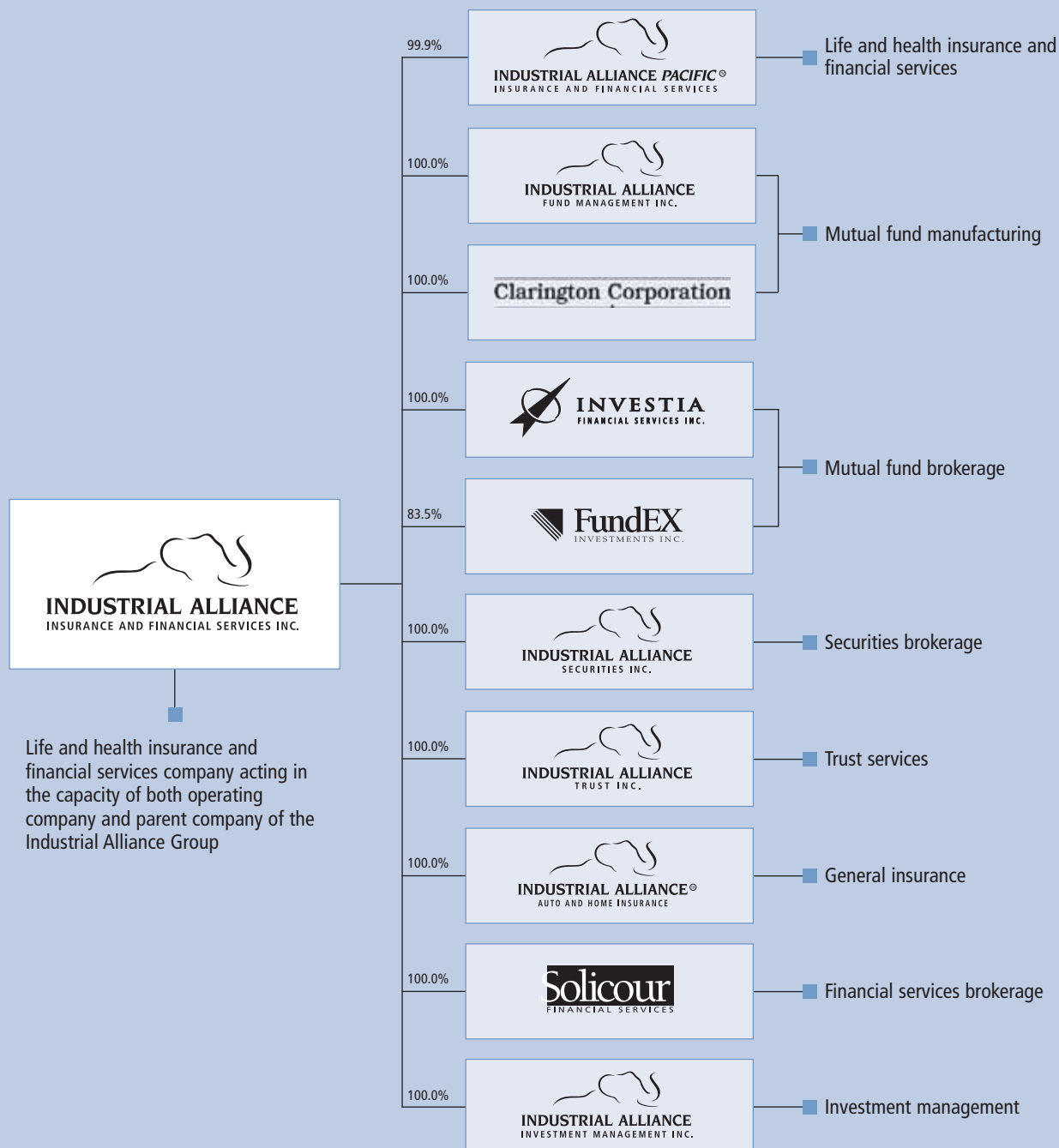


Assets Under Management by Region Insured Annuities \$2.0 billion

2005



Industrial Alliance Group Organization Chart



© 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 General Insurance Company.

■ **Industrial Alliance Insurance and Financial Services Inc.** – 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 in all regions of the country. The Company's head office is located in Quebec City, Quebec. Industrial Alliance insures over 2 million Canadians, employs more than 2,700 people and relies on a distribution network of some 1,400 career agents and 12,000 brokers. Industrial Alliance manages and administers over \$38 billion in assets. Industrial Alliance stock is listed on the Toronto Stock Exchange under the ticker symbol IAG. With a market capitalization of over \$2.4 billion, Industrial Alliance is among the 100 largest stock companies in Canada.

■ **Industrial Alliance *Pacific* Insurance and Financial Services – Assets under management: \$3.0 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 largely integrated with those of Industrial Alliance, its parent company.

■ **Industrial Alliance Fund Management Inc. – Assets under management: \$2.1 billion**

Industrial Alliance Fund Management is a fund manufacturer that primarily manages mutual funds. This subsidiary was created in December 2004 following the acquisition of BLC-Edmond de Rothschild Asset Management Inc. In 2005, Industrial Alliance Fund Management integrated the activities of Industrial Alliance Mutual Funds Inc., a mutual fund manufacturer wholly owned by Industrial Alliance. In 2006, the company is also expected to integrate the activities of Clarington Corporation, a mutual fund company that was acquired by Industrial Alliance in 2005.

■ **Clarington Corporation – Assets under management: \$4.4 billion**

Founded in 1996, Clarington Corporation is a mutual fund management company that oversees the promotion, management and distribution of its investment funds across Canada. Clarington was acquired by Industrial Alliance in December 2005. Its activities are to be integrated with those of Industrial Alliance Fund Management in 2006.

■ **Investia Financial Services Inc. – Assets under administration: \$2.4 billion**

Investia Financial Services is a mutual fund broker. Since 1999, Investia offers the funds of the majority of large Canadian investment fund companies. Investia distributes its 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 Inc. – Assets under administration: \$5.1 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 more than 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 Inc. – Assets under administration: \$1.4 billion**

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., located in Nova Scotia, and in 2005, it acquired KingsGate Securities, located in Ontario.

■ **Industrial Alliance Trust Inc. – Assets under management and administration: \$1.9 billion**

Created in 2000, Industrial Alliance Trust offers Industrial Alliance Group companies and their distribution networks select trust products and services that are complementary to their operations. In 2005, Industrial Alliance Trust became a promoter of the Immigrant Investor Program.

■ **Industrial Alliance Auto and Home Insurance – Direct underwritten premiums: \$96.0 million**

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

■ **Solicour Inc. – Premiums: \$26.3 million**

Solicour is a financial services brokerage firm that distributes life and health insurance, savings and retirement products, segregated funds as well as group insurance products from the majority of Canadian insurers. It distributes its products mainly through agents in the Industrial Alliance Career Section. Founded in 1985, Solicour has conducted activities in its present form since 1999.

■ **Industrial Alliance Investment Management Inc. – Assets under management: \$7.5 billion**

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

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Notice

Non-GAAP Financial Measures

The Company reports its financial results in accordance with generally accepted accounting principles (GAAP). It also uses certain non-GAAP financial measures, including adjusted shareholder net income, adjusted diluted earnings per share and adjusted return on equity. These non-GAAP financial measures are always clearly indicated, and are always accompanied by and reconciled with GAAP financial measures. The Company believes that these non-GAAP financial measures provide investors and analysts with useful information so that they can better understand the financial results and perform a better analysis of the Company's growth and profitability potential. These non-GAAP financial measures provide a different way of assessing various aspects of the Company's operations and may facilitate the comparison of results from one period to another. Since non-GAAP financial measures do not have a standardized definition, they may differ from the non-GAAP financial measures used by other institutions. The Company strongly encourages investors to review its financial statements and other publicly-filed reports in their entirety and not to rely on any single financial measure. 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. The forward-looking nature of these statements can generally, though not always, be identified by the use of words such as "may," "expect," "anticipate," "intend," "believe," "estimate," "feel," "continue," or other similar expressions, in the affirmative, negative or conditional. These statements entail risks and uncertainties that may cause the actual results,

performance or achievements of Industrial Alliance to differ from the future results, performance or achievements expressed or implied by the forward-looking statements. Factors that could cause the Company's actual results to differ from expected results include changes in government regulations or tax laws, competition, technological changes, global capital market activity, interest rates, changes in demographic data, changes in consumer behaviour and 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. Industrial Alliance is not obligated to revise or update these forward-looking statements to reflect events, circumstances or situations that occur after the date of this annual report, or following unforeseen events.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all material information is gathered and reported in a timely fashion to senior management, in particular the Chief Executive Officer and the person who performs similar functions to a Chief Financial Officer, in order that appropriate decisions may be made concerning the disclosure of this information. The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the controls and procedures for disclosing the Company's information. Following an evaluation carried out by these senior officers as at December 31, 2005, the Company's disclosure controls and procedures were deemed to be effective.

Executive Summary

2005 was a profitable year for Industrial Alliance on a number of different fronts. From a strategic standpoint, the Company made significant strides in its growth strategy in the mutual fund management sector with the acquisition of Clarington Corporation. This acquisition comes almost one year to the day after the acquisition of another major company in this sector, BLC-Edmond de Rothschild Asset Management Inc. (BLCER). In addition to adding scale to the Company in the mutual fund management sector, these two acquisitions are paving the way to a new area of growth and, over time, will provide the Company with a better diversification of its sources of profit.

In terms of business growth, the Company continued its momentum in all lines of business and in all parts of the country, as premiums and deposits reached a record \$3.6 billion, a 26% jump over the previous year.

From a profitability standpoint, the Company's decision to post a \$52.1 million (after tax) provision for its investment in Norshield cast an unfavourable shadow on what would otherwise have been an exceptional year financially. This decision was made to protect the Company's clients from losing money because of the financial problems experienced by fund manager Norshield. Nevertheless, the Company once again ended the year with a return on equity of over 10%.

Profitability

The Company ended the year with shareholder net income of \$132.2 million, compared with \$155.1 million in 2004. The income for 2005 translates into diluted earnings per share of \$1.65 and a 10.3% return on common shareholders equity.

The earnings for the year were affected by three non-recurring items:

- a) a \$52.1 million (after tax) provision for the funds managed by Norshield,
- b) a \$4.2 million (after tax) gain related to a change of reinsurer, and
- c) restructuring charges of \$4.1 million (after tax) related to the integration of National Life with the parent company.

Had it not been for these items, adjusted shareholder net income would have reached \$184.2 million for the year, which would have represented a 14% increase over the previous year's comparable data. The adjusted diluted earnings per share would have been \$2.30, up \$0.28 compared to 2004. The adjusted rate of return on equity would have reached 14.0%, in the middle of the Company's 13% to 15% target range.

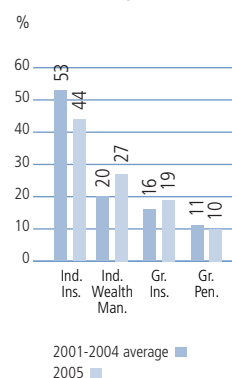
Profitability

(In millions of dollars, unless otherwise indicated)	2004	2005	Variation
Shareholder net income	155.1	132.2	(15%)
Shareholder net income, adjusted ¹	161.2	184.2	14%
Diluted earnings per share	\$1.95	\$1.65	(\$0.30)
Diluted earnings per share, adjusted ¹	\$2.02	\$2.30	\$0.28
Return on equity	13.6%	10.3%	
Return on equity, adjusted ¹	14.1%	14.0%	

The increase in the adjusted income is explained by the continuous growth and good profitability of the Company's in-force business block, and by substantial experience gains in the Individual Insurance and Individual Wealth Management sectors. The main drivers behind these experience gains were favourable mortality, the synergies realized from the integration of the National Life business and higher than expected management fee income due to higher than expected asset growth.

All lines of business contributed to the increase in adjusted net income in 2005. However, the Individual Wealth Management sector once again had the best performance. This sector benefited from strong net sales of segregated funds, and from the Company's entry into the mutual fund sector following the acquisition of BLCER, which had particularly robust sales in 2005.

Contribution of Each Line of Business to Adjusted Net Income¹



Note that the increasing importance of the Company's wealth management activities and the consistent growth in the profitability of the Group Insurance sector over the last few years has led to a sound diversification of the Company's sources of profit. Hence, the Individual Insurance sector, which remains the Company's core line of business and the one whose profit is most stable, accounted for 44% of the Company's adjusted net income in 2005, compared with an average of 53% from 2001 to 2004. The other lines of business accounted for 56% of the Company's adjusted net income in 2005, compared with an average of 47% from 2001 to 2004.

The 2005 results also include a \$2.1 million (before tax) strengthening of the actuarial reserves. This strengthening results from the Company's usual update of assumptions at the end of each year. As was the case in the last few years, the reserves were strengthened to take into account the drop in interest rates and the decrease in lapse rates on lapse-supported products. However, a good portion of these reserve increases was offset by reserve releases to take into account improved mortality rates and more moderate growth of expenses. The reserves also take into account the impact of the National Life integration on the Company's unit costs. The changes in assumptions mainly affected the Individual Insurance sector.

The effective tax rate was 31.1% in 2005, excluding the non-recurring items. The Company estimates that the effective tax rate should be around 32.5% in the short term, considering the 3% increase in the corporate tax rate adopted by the government of Quebec at the end of 2005.

Business Growth

Business growth was strong throughout the year. Following are a few business growth highlights, as measured by premiums and deposits, sales by line of business, assets and added value of new sales.

¹ The following adjustments were made to the Company's profitability data for 2004 and 2005. For 2004: \$6.1 million (after tax) in restructuring charges related to the integration of National Life with the parent company; for 2005: \$52.1 million (after tax) provision for the funds managed by Norshield, \$4.2 million gain (after tax) related to a change of reinsurer and \$4.1 million (after tax) in restructuring charges related to the integration of National Life with the parent company.

Premiums and deposits – Sales growth and good business persistency enabled premiums and deposits to exceed the \$3 billion mark for the first time ever, reaching a high of \$3.6 billion in 2005, growth of 26% over the previous year. Premiums and deposits are up in all lines of business, but the strongest growth comes from the Individual Wealth Management sector, owing to very steady sales of segregated funds and mutual funds.

Premiums and Deposits

(In millions of dollars, unless otherwise indicated)	2004	2005	Variation
Premiums (insurance, annuities and segregated funds)	2,852.4	3,171.1	11%
Deposits (mutual funds)	–	412.6	–
Total	2,852.4	3,583.7	26%

Individual Insurance – In spite of a complete restructuring of its distribution networks, the Company ended the year with record sales of \$141.3 million in the Individual Insurance sector, a 1% increase over 2004. The Company is pleased with this result, considering all the changes that were made to the distribution networks in the last year. The Company reviewed its sales approach in the retail sectors and reorganized its distribution system, which is now structured by network rather than by company. This restructuring gave rise to changes in the agent remuneration method and the Company's product line. In this respect, the year culminated with the launch of a new Universal Life policy, a product for which the Company leads the Canadian market in sales. In 2005, Industrial Alliance was ranked fourth in Canada for individual life insurance sales, with a 12.7% market share.

Individual Wealth Management – The Individual Wealth Management sector took advantage of the Company's entry into the mutual fund market in 2005, the strong stock markets and the solid performance of its investment funds to climb to new peaks. Sales of general funds (primarily guaranteed investment certificates), segregated funds and mutual funds exceeded the billion dollar mark for the first time ever, reaching \$1.5 billion, a 61% increase from the previous year and more than double the amount from two years ago. Sales are up in all parts of Canada, for all product categories and for all distribution networks. Net segregated fund and mutual fund sales are very good, totalling \$696.1 million for 2005. Net sales represent almost 60% of gross sales, which is excellent. For segregated funds alone, the Company's net sales ranked it third in Canada in 2005, with a 15.8% market share, one of the Company's best performances to date.

Group Insurance: Employee Plans – In spite of a particularly strong finish to the year, the Company ended the year with \$52.3 million in sales in the Employee Plans sector, down 6% from 2004. This decrease is primarily explained by the overall weakness of the market (industry sales were down 11% in 2005) and the Company's difficulty in obtaining large group contracts. Sales were slightly higher outside Quebec, a first for the sector, and sales in our target market of groups with 50 to 1,000 employees grew 6% in 2005. The Company was ranked fifth in Canada for sales in its target market of medium-sized groups, with an 8.1% market share (sixth in 2004, with 7.1% of the market).

Group Insurance: Creditor Insurance – In spite of low car sales, the Group Creditor Insurance sector, which mainly specializes in sales through motorized vehicle dealers, ended the year with \$158.8 million in sales, a 20% increase for 2005. The success in 2005 was obtained through the growing number of car dealers contracted and the marketing of new products. The Company is ranked first in Canada in the creditor insurance market among car dealers, with over 40% of the market.

Group Insurance: Special Markets Group – The Special Markets Group sector is quietly continuing to grow, with premiums reaching \$87.4 million for 2005, up 10% over the previous year. The sector continues to profit from strong sales in past years. SMG specializes in certain group insurance niche markets that are not well served by traditional group insurance carriers.

Group Pensions – Group Pensions had an exceptional year in 2005. Sales totalled \$564.8 million, up 22% over 2004. This increase comes from both the insured annuities niche, where activity was very intense in 2005, and accumulation products, where new business growth was excellent. Business growth was particularly strong outside Quebec, where sales were slightly higher than in Quebec, a first for the sector. A few years ago, the Group Pensions sector implemented a development plan that focused on accumulation products and Canada-wide development.

Sales¹

(In millions of dollars, unless otherwise indicated)	2004	2005	Variation
Individual Insurance	139.9	141.3	1%
Individual Wealth Management			
General fund	237.5	242.4	2%
Segregated funds	669.3	805.2	20%
Mutual funds	–	412.6	–
Total	906.8	1,460.2	61%
Group Insurance			
Employee Plans	55.7	52.3	(6%)
Creditor Insurance	132.6	158.8	20%
Special Markets Group (SMG)	79.7	87.4	10%
Group Pensions	461.1	564.8	22%

Assets under management and under administration – The Clarington purchase at the very end of the year pushed assets under management up by \$4.4 billion, bringing assets under management and under administration to \$38.2 billion as at December 31, 2005, a 34% increase over 2004. Several other factors contributed to asset growth during the year, including strong net segregated fund and mutual fund sales, good premium growth in the different lines of business, solid growth in assets under administration in the mutual fund distribution subsidiaries, the purchase of KingsGate Securities at the beginning of the year and the good stock market performance.

Assets Under Management and Under Administration

As at December 31

(In millions of dollars, unless otherwise indicated)	2004	2005	Variation
Assets under management	18,834.9	25,780.3	37%
Assets under administration	9,641.1	12,390.9	29%
Total	28,476.0	38,171.2	34%

Added value of sales – The Company continues to underwrite very profitable business, with the added value of sales growing 26% in 2005 to reach \$80.2 million (\$1.01 per share). The increase in the added value of sales is primarily explained by strong sales in all lines of business, particularly in the Individual Wealth Management sector, owing to strong net mutual fund and segregated fund sales. The added value of sales was also affected by various other factors, including the updating of economic and other assumptions and the changes made to the method of calculating the added value of segregated funds.

¹ The concept of sales seeks to measure a company's ability to underwrite new business (as opposed to the concept of conservation of in-force business). The Company's sales are defined as follows for each line of business: Individual Insurance: first-year annualized premiums; Individual Wealth Management: premiums for the general fund and segregated funds and deposits for mutual funds; Group Insurance: Employee Plans: first-year annualized premiums, including premium equivalents (Administrative Services Only contracts); Creditor Insurance: gross premiums (premiums before reinsurance); Special Markets Group: premiums; Group Pensions: premiums.

Capitalization

The Company's regulatory capital reached \$1.8 billion as at December 31, 2005, a 15% increase compared to December 31, 2004. This increase can be explained by three main factors: a) the consolidation of the \$62.9 million Clarington subordinated debenture, assumed by Industrial Alliance following the acquisition of this company, b) the issuance of \$48.5 million in Industrial Alliance common shares as part of the acquisition of Clarington, and c) the increase in retained earnings, net of dividends paid to shareholders. The combined effect of these three factors increased the Company's debt ratio from 19.6% as at December 31, 2004 to 21.3% as at December 31, 2005.

However, taking into account the issuance of \$125.0 million in preferred shares that the Company concluded on February 24, 2006, the anticipated buy-back of 1.8 million Industrial Alliance common shares (equivalent to the number of shares issued when Clarington was acquired) and the anticipated reimbursement of the \$62.9 million Clarington subordinated debenture, the Company's debt ratio drops back down to 17.6%, if the debt items alone are considered in the calculation of the debt ratio, and increases to 24.7% if the preferred shares are included in addition to the debt items.

Debt, Solvency and Excess Capital As at December 31

	2004	2005	2005 (Pro forma) ¹
Debt ratio			
Debt/capital	19.6%	21.3%	17.6%
Debt + preferred shares/capital	19.6%	21.3%	24.7%
Solvency ratio (MCCSR ²)	222%	188%	198%
Excess capital	\$158 million	—	\$62 million

Solvency

The solvency ratio was 188% as at December 31, 2005, which is 34 percentage points lower than at the end of 2004. This decrease primarily results from the acquisition of Clarington, which led to the posting of \$227.4 million in goodwill (including \$21.6 million in reorganization and transaction costs), partially offset by the issuance of \$48.5 million in common shares. The solvency ratio also benefited from the usual contribution of net income to the available capital, net of the increase in required capital related to normal business growth.

The decrease in the solvency ratio recorded in 2005 is only temporary, since the issuance of \$125.0 million in preferred shares, the anticipated buy-back of 1.8 million Industrial Alliance common shares and the anticipated reimbursement of the \$62.9 million Clarington subordinated debenture will increase the solvency ratio to 198%, which is in the upper end of the Company's 175% to 200% target range.

The Company would then have just over \$60 million in excess capital. This excess capital should gradually grow during the year, since the Company estimates that it only uses two thirds of its net income for organic growth and to pay dividends to shareholders.

Quality of Investments

The overall quality of investments remains excellent, and most quality indices either remained stable or improved further in 2005. However, there are two items concerning the quality of investments in 2005 that are worthy of note.

In the first quarter, the Company sold its Teleglobe bonds, which originally had a book value of \$27.9 million and were fully provisioned. Moreover, in the third quarter, the Company posted a \$77.9 million (before tax) provision to cover the investments previously made by its clients in the funds managed by Norshield.

These operations did not have a significant impact on net impaired investments, which decreased slightly during the year, from \$8.5 million as at December 31, 2004 to \$7.6 million as at December 31, 2005. The quality of investments has therefore been maintained, since net impaired investments represented just 0.07% of total investments as at December 31, 2005, compared with 0.08% as at December 31, 2004, one of the lowest rates ever achieved by the Company.

The quality of the bond portfolio remains very good, with no bonds defaulting during the year. The delinquency rate remained unchanged, accounting for 0.02% of the portfolio. As at December 31, 2005, bonds rated BB and lower (0.36% of the portfolio) represented just \$23.5 million of a \$6.6 billion bond portfolio.

The quality of the mortgage loan portfolio remains very good. The delinquency rate of the mortgage loan portfolio remained practically unchanged in 2005, accounting for 0.30% of the portfolio compared to 0.32% as at December 31, 2004. Mortgage loans in arrears totalled \$7.3 million and 93.0% of loans in default are insured. The Company is not expecting any losses on the loans in arrears.

The occupancy rate of the Company's real estate portfolio, which was already excellent, improved even further during the year, increasing from 95.2% as at December 31, 2004 to 96.8% as at December 31, 2005.

At 114.2% as at December 31, 2005, the market value/book value ratio of the real estate portfolio is at its highest level in five years. This reflects a \$27.0 million increase in the market value of the real estate portfolio. The buildings are re-appraised every three years. This year, about one third of the Company's buildings were re-appraised, leading to an increase of about 20% in the market value of these buildings.

Quality of Investments

As at December 31

(In millions of dollars, unless otherwise indicated)	2004	2005
Overall quality indices		
Gross impaired investments (excluding insured loans)	47.6	96.8
Provisions for losses	(39.1)	(89.2)
Net impaired investments (excluding insured loans)	8.5	7.6
Net impaired investments as a % of total investments	0.08%	0.07%
Provisions as a % of gross impaired investments	82.0%	92.1%
Bonds – Value of the portfolio	6,074.5	6,619.6
Bonds rated BB and lower	0.24%	0.36%
Delinquency rate	0.02%	0.02%
Mortgage loans – Value of the portfolio	2,491.8	2,420.8
Delinquency rate	0.32%	0.30%
Proportion of impaired loans that are insured	81.0%	93.0%
Stocks and market indices – Value of the portfolio	1,081.1	1,162.4
Market/book value ratio, as a %	104.6%	108.0%
Real estate – Value of the portfolio	444.5	446.3
Market/book value ratio, as a %	108.6%	114.2%
Occupancy rate	95.2%	96.8%

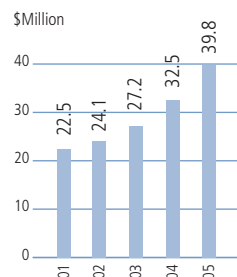
¹ The pro forma data as at December 31, 2005 take into account the following three factors: the issuance of \$125.0 million in preferred shares (concluded on February 24, 2006), the buy-back of 1.8 million Industrial Alliance common shares (planned for the first quarter of 2006), and the reimbursement of the \$62.9 million Clarington subordinated debenture (planned for the first quarter of 2006).

² MCCSR: minimum continuing capital and surplus requirements.

Dividend

The Company paid out \$39.8 million in dividends to common shareholders in 2005 (\$32.5 million in 2004). The Company increased its dividend twice in 2005, for a total increase of 27%.

Dividends Paid to Common Shareholders



The Company currently pays a quarterly dividend of \$0.14 per common share, which corresponds to a payout ratio of 24% of the net sustainable earnings on an annualized basis. The Company is targeting a payout ratio of 25%, which would be in the middle of its target range of 20% to 30% of sustainable earnings.

Main Achievements in 2005

In terms of achievements, 2005 was marked by several events that will have a far-reaching long-term impact on the Company.

- **Acquisition of Clarington Corporation** – The highlight of the year was, without a doubt, the acquisition of Clarington Corporation. Today Industrial Alliance is the sole owner of Clarington. The total cost of the transaction was \$216.4 million, with nearly 25% of the purchase price being settled through the issuance of 1,811,165 common shares of Industrial Alliance. The Company also assumed a debt of \$62.9 million from Clarington.

The acquisition was financed in cash and through the issuance of \$125.0 million in preferred shares. The closing of this issue took place on February 24, 2006.

In order to minimize any dilution for Industrial Alliance shareholders, through its normal course issuer bid, the Company plans to buy-back some 1.8 million Industrial Alliance common shares, equivalent to the number of shares issued when Clarington was acquired.

The Company estimates that this acquisition will increase earnings per share by \$0.02 in 2006 and by \$0.06 in 2007. The Company intends to rapidly maximize the potential synergies with Clarington, particularly with respect to administrative systems, fund management and the financing of commissions related to the acquisition of business.

From a strategic standpoint, this acquisition will enable Industrial Alliance to become a scale player in the investment fund market (mutual funds and segregated funds combined). As at December 31, 2005, Industrial Alliance was managing \$5.7 billion in mutual funds and \$4.8 billion in segregated funds for the retail market, for a total of \$10.5 billion. The Company was also administering \$7.4 billion in mutual funds through its Investia and FundEX mutual fund subsidiaries, and \$1.4 billion in securities through its Industrial Alliance Securities subsidiary.

- **Integration of National Life** – Progress in the integration of National Life with the parent company, which was announced at the end of 2004, went according to the Company's expectations in 2005. From a legal standpoint, the integration was completed on June 30, 2005, in accordance with the most optimistic scenario. From a financial standpoint, the Company has posted \$10.2 million of the \$12.5 million (after tax) in restructuring charges that it had anticipated. The remaining expenses will be recognized in 2006. The systems integration should be about 80% complete by the end of 2006. This integration will allow Industrial Alliance to further improve its efficiency.

- **Restructuring the distribution networks in the retail sectors** – On the heels of the National Life integration, the Company decided to optimize its approach to retail product distribution by restructuring the distribution system by network rather than by company. This new approach required the implementation of several major projects, including the integration of the sales teams of the three life insurance companies, the implementation of a single product line (requiring the harmonization of products and prices), and the harmonization of back-office systems and procedures (sales support, risk selection rules, sales force remuneration tools, etc.).
- **Development outside Quebec** – The Company also made substantial progress in 2005 with respect to its development outside Quebec for the group sectors. Hence, just over half of Group Pension accumulation product sales and Group Insurance Employee Plan sales were made outside Quebec in 2005, a first for both of these sectors.
- **Acquisition of KingsGate Securities** – At the beginning of 2005, the Company acquired certain assets of KingsGate Securities Inc. KingsGate is a full-service securities broker located in Ontario. It had some 20 representatives, over 5,000 clients and administered almost \$300 million in assets. KingsGate was integrated with Industrial Alliance Securities Inc., the Company's securities brokerage subsidiary. KingsGate will be responsible for the development of securities business in Ontario.
- **Integration of BLC-Edmond de Rothschild Asset Management Inc. (BLCER)** – The operations of BLCER, a company that was acquired at the end of 2004 and renamed Industrial Alliance Fund Management Inc., were merged with those of Industrial Alliance Mutual Funds Inc., the fund management subsidiary that the Company already owned. The rapid integration of BLCER was one of the elements that facilitated the acquisition of Clarington. The operations of Clarington will be integrated with Industrial Alliance Fund Management Inc. in 2006.

Market Guidance for 2006

Finally, the Company has outlined some of the main objectives that it is targeting for 2006:

- **Rate of return** – For the rate of return on common shareholders equity, the Company is maintaining its objective to obtain a return between 13% and 15%.
- **Earnings per share** – The Company's return objective translates into growth of earnings per share of some 10% for 2006.
- **Business growth** – For business growth, the Company is reiterating its objective to grow sales by five percentage points higher than the industry average.
- **Dividend** – For the dividend, the Company is targeting a dividend payout ratio of 25%, which is in the middle of its target range of 20% to 30% of sustainable earnings. The Company currently pays a quarterly dividend of \$0.14 per common share, which, on an annualized basis, corresponds to 24% of sustained earnings for 2005.
- **Solvency ratio** – The Company continues to target a solvency ratio in the 175% to 200% range (MCCSR – minimum continuing capital and surplus requirements).
- **Tax rate** – The expected effective tax rate for 2006 should be about 32.5%, taking into account the 3% increase in the corporate tax rate adopted by the Quebec government at the end of 2005.

Profitability

2005 Highlights

- Profitability
 - Net income of \$132.2 million, down 15%
 - Diluted EPS of \$1.65, down \$0.30
 - 10.3% return on equity
- These results take into account three non-recurring items
 - Provision for Norshield (\$52.1 million net loss)
 - Restructuring charges for National Life (net charge of \$4.1 million)
 - Gain following a change of reinsurer (net gain of \$4.2 million)
- Adjusted profitability
 - Adjusted net income of \$184.2 million, up 14%
 - Adjusted diluted EPS of \$2.30, up \$0.28
 - Adjusted return on equity of 14.0%, in the middle of the 13% to 15% target range
- Key profitability drivers: excellent net sales of segregated funds and mutual funds, as well as strong markets, which gave momentum to the Individual Wealth Management sector

The Company ended 2005 with shareholder net income of \$132.2 million, compared with \$155.1 million in 2004. The income for 2005 translates into diluted earnings per share of \$1.65 and a 10.3% return on equity.

The income for the year was affected by three non-recurring items: a) a \$77.9 million (\$52.1 million after tax) provision for the funds managed by Norshield, b) a \$6.2 million (\$4.2 million after tax) gain related to a change of reinsurer, and, c) restructuring charges of \$6.1 million (\$4.1 million after tax) related to the integration of National Life, one of the Company's life and health insurance subsidiaries.

Net Income to Shareholders

(In millions of dollars, unless otherwise indicated)	2001	2002	2003 ¹	2004	2005	Variation	
						2005 vs. 2004	5-year CAGR ²
Net income to shareholders (according to GAAP)	103.9	97.4	136.9	155.1	132.2	(15%)	6%
Goodwill expense ³	3.4	—	—	—	—	—	—
Provision for Teleglobe ⁴	—	19.4	—	—	—	—	—
National Life restructuring charges	—	—	—	6.1	4.1	—	—
Change of reinsurer	—	—	—	—	(4.2)	—	—
Provision for the funds managed by Norshield	—	—	—	—	52.1	—	—
Net income to shareholders, adjusted ⁵	107.3	116.8	136.9	161.2	184.2	14%	14%

Had it not been for these items, adjusted shareholder net income would have reached \$184.2 million for the year, which would have represented a 14% increase over the previous year's comparable data. The adjusted diluted earnings per share would have been \$2.30, up \$0.28 compared to last year. The adjusted rate of return on equity would have reached 14.0%, in the middle of the Company's 13% to 15% target range.

Profitability Measures

	2001	2002	2003 ¹	2004	2005
Diluted earnings per share					
According to GAAP	\$1.38	\$1.29	\$1.74	\$1.95	\$1.65
Adjusted ⁶	\$1.42	\$1.55	\$1.74	\$2.02	\$2.30
Return on common shareholders equity					
According to GAAP	14.0%	11.8%	13.9%	13.6%	10.3%
Adjusted ⁶	14.4%	14.0%	13.9%	14.1%	14.0%

All lines of business contributed to the increase in adjusted net income in 2005. The Individual Wealth Management sector recorded the strongest growth, benefiting from strong net sales of the Company's segregated funds and mutual funds, as well as the good performance of the stock market.

¹ Restated to take into account the \$53.5 million transfer from the participating policyholders' account to the retained earnings account.

² CAGR: compound annual growth rate (2000 to 2005).

³ The goodwill expense was adjusted following the introduction of new accounting rules concerning the amortization of goodwill.

⁴ In the first quarter of 2002, the Company posted a provision equivalent to the total value of its Teleglobe bonds. This measure reduced the income by \$27.9 million, less a tax consideration of \$8.5 million, which equals a \$19.4 million reduction in the net income.

⁵ The Company occasionally uses non-GAAP financial measures for presentation and analysis purposes. The non-GAAP financial measures (shareholder net income, adjusted, diluted earnings per share, adjusted and return on equity, adjusted) 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 adjusted data are not subject to GAAP.

⁶ The non-recurring items are detailed in the *Net Income to Shareholders* table at the top of this page.

We would like to draw your attention to three other points that concern profitability.

- First, using the adjusted data as a point of reference, we can see that shareholder net income grew at a compound annual rate of 14% for the last five years. This growth rate shows the good profitability of the Company's core operations, as well as its ability to adapt in a competitive environment.
- Still using the adjusted data, the return on equity has remained above – or close to – 14% in the last five years. This rate of return is in the middle of the Company's 13% to 15% target range.
- Finally, as the table below shows, the Company relies on much more varied sources of profit to ensure its growth than it did five years ago. Hence the income for the Individual Wealth Management and Group Insurance sectors represented 46% of the Company's adjusted net income in 2005, compared to just 32% in 2001. The gain recorded by these sectors was made to the detriment of the Individual Insurance sector, which nevertheless remains the Company's main line of business, since it generated more than 40% of the Company's adjusted net income in 2005.

Adjusted¹ Net Income to Shareholders by Line of Business

	2001	2002	2003 ²	2004	2005
Individual Insurance	53%	57%	53%	49%	44%
Individual Wealth Management	20%	16%	22%	21%	27%
Group Insurance	12%	16%	15%	21%	19%
Group Pensions	15%	11%	10%	9%	10%
Total	100%	100%	100%	100%	100%

Sources of Earnings

The Company believes that sources of earnings is an important tool to help investors better understand how the Company creates value for shareholders. Sources of earnings also provides an overview of trends in terms of income. The main data concerning the sources of earnings for 2004 and 2005 are presented in the table below.

Sources of Earnings

(In millions of dollars)	2004	2005
Expected profit on in-force	231.7	268.3
Experience gains (losses)	18.2	19.0
Gain (strain) on sales	(82.4)	(92.4)
Changes in assumptions	(3.7)	(2.1)
Operating profit	163.8	192.8
Income on capital	69.8	74.5
Income taxes	(72.4)	(83.1)
Net income, adjusted	161.2	184.2
Non-recurring items ¹	(6.1)	(52.0)
Net income (according to GAAP)	155.1	132.2

¹ The non-recurring items are detailed in the *Net Income to Shareholders* table at the beginning of the *Profitability* section.

² Restated to take into account the \$53.5 million transfer from the participating policyholders' account to the retained earnings account.

Expected profit on 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 on in-force increased by 16% compared to the previous year, reaching \$268.3 million in 2005. This increase is the result of the profitable growth of operations over the last few years and the recognition of experience gains from prior years that the Company considers to be permanent.

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.

Experience gains contributed to a \$19.0 million increase in income for 2005. These gains primarily come from two sectors: Individual Wealth Management and Individual Insurance. The main drivers behind these experience gains were higher than expected MER (management expense ratio) income due to asset growth (which itself is a result of excellent net sales of segregated funds and mutual funds, as well as strong stock markets), a larger spread on Guaranteed Investment Certificate (GIC) type contracts, favourable mortality, and synergies realized following the integration of the National Life business. 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 into 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.

New business strain was \$92.4 million in 2005, which is 12% higher than the previous year. This is a reflection of higher sales and the increase in sales reserves as a result of updated valuation parameters for the Individual Insurance sector at the end of 2004. The Company maintained its pricing discipline in 2005, in spite of the strong market environment.

Changes in assumptions – The Company fully updates its valuation assumptions each year to take into account the most recent changes in the economic and financial environment, as well as the Company's most recent mortality and morbidity results.

In 2005, the changes in assumptions led to a \$2.1 million reserve strengthening. As was the case in the last few years, the reserves were strengthened to take into account the drop in interest rates and the decrease in lapse rates on lapse-supported products. However, a good portion of these reserve increases was offset by reserve releases to take into account improved mortality rates and more moderate growth of expenses. Note that the reserves were revalued to take into account the impact of the National Life integration on the Company's unit costs. The changes in assumptions have mainly affected the Individual Insurance sector.

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 in income on capital the net profits of subsidiaries that do not operate in one of its four lines of business.

Income on capital reached \$74.5 million in 2005, a \$4.7 million increase over the previous year. This growth results from the normal growth of the Company's surplus, as well as the good performance of the subsidiaries that are matched to the surplus, including Industrial Alliance Auto and Home Insurance.

Income on capital would have been higher had it not been for the decreased return on the Company's investment in Norshield. This investment is now part of the Company's capital.

The income from BLC-Edmond de Rothschild Asset Management (a company acquired at the end of 2004 and renamed Industrial Alliance Fund Management Inc.) is now part of the operating profit of the Individual Wealth Management sector.

Income taxes – Income taxes represent the value of amounts payable under the tax laws and, other than income taxes as such (tax payable and future income taxes), they include capital taxes not deductible from the Company's income. A life insurer's 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 \$83.1 million in 2005, \$10.7 million more than in 2004. This increase is attributable mainly to increased profits in 2005. The effective tax rate was 31.1% in 2005, excluding the non-recurring items. The Company estimates that the effective tax rate should be around 32.5% in the short term, considering the 3% increase in the corporate tax rate adopted by the government of Quebec.

Non-recurring items – This year, the Company's income was affected by three non-recurring items:

- Restructuring charges of \$6.1 million (\$4.1 million after tax) related to the integration of National Life. As at December 31, 2005, \$12.7 million (\$10.2 million after tax) of the \$16.1 million (\$12.5 million after tax) in restructuring charges had been incurred. The remaining charges will be recognized as they are incurred by the end of 2006;
- A \$6.2 million (\$4.2 million after tax) gain related to a change of reinsurer; and
- A \$77.9 million (\$52.1 million after tax) provision for the funds managed by Norshield.

Sources of Earnings by Line of Business

The following table presents the sources of earnings by line of business in order to better understand the contribution of each sector to the Company's overall results.

Sources of Earnings by Line of Business

	Individual Insurance		Individual Wealth Management		Group Insurance		Group Pensions	
(In millions of dollars)	2004	2005	2004	2005	2004	2005	2004	2005
Expected profit on in-force	146.6	156.0	46.7	55.8	27.9	44.0	10.5	12.5
Experience gains (losses)	0.2	5.7	2.5	13.6	16.3	(0.3)	(0.8)	0.0
Gain (strain) on sales	(70.3)	(82.9)	(11.9)	(8.3)	0.0	0.0	(0.2)	(1.2)
Changes in assumptions	(0.5)	(1.5)	(1.9)	(1.6)	(1.3)	(1.1)	0.0	2.1
Operating profit	76.0	77.3	35.4	59.5	42.9	42.6	9.5	13.4
Income on capital	36.5	41.4	14.6	11.7	8.0	10.1	10.7	11.3
Income taxes	(34.2)	(37.4)	(15.7)	(22.2)	(17.0)	(17.0)	(5.5)	(6.5)
Net income, adjusted	78.3	81.3	34.3	49.0	33.9	35.7	14.7	18.2
Non-recurring items ¹	(4.8)	(0.9)	(1.0)	(50.4)	(0.3)	(0.6)	0.0	(0.1)
Net income (according to GAAP)	73.5	80.4	33.3	(1.4)	33.6	35.1	14.7	18.1

The following section presents the operating profit for each line of business.

Individual Insurance – Individual Insurance delivered strong and stable results once again in 2005, in spite of the sharp increase in new business strain.

The operating profit for the sector was \$77.3 million, up 2% over 2004. This increase reflects the solid profitability of the Company's in-force block of business, good mortality results, the synergies realized following the integration of National Life and a \$1.7 million (\$1.1 million after tax) gain resulting from the sale of the Company's investment in Teleglobe (this investment had been fully provisioned in 2002).

On the other hand, the growth of the operating profit was slowed by a \$12.6 million increase in new business strain. Higher strain is the result of business growth and the increase in sales reserves following the update of the valuation assumptions at the end of 2004.

Individual Wealth Management – The strength of the stock markets, the Company's entry into the mutual fund market and strong net sales of segregated funds pushed the operating income for the Individual Wealth Management sector to \$59.5 million in 2005, a 68% jump compared to the previous year.

New business strain is \$8.3 million, a \$3.6 million decrease compared to the previous year, in spite of higher net sales of segregated funds. This decrease is the result of the harmonization of the valuation method for U.S. GIC type contracts with the one used for Canadian GIC type contracts since the end of 2004.

¹ The non-recurring items are detailed in the *Net Income to Shareholders* table at the beginning of the *Profitability* section.

Group Insurance – Group Insurance had an excellent year in 2005 on the heels of a very good year in 2004. The operating profit reached \$42.6 million, similar to the 2004 result.

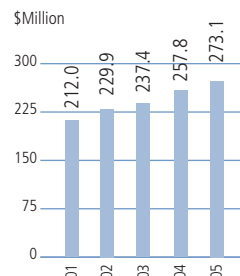
Profit growth in the last few years is reflected in the increase in the expected profit from in-force, which jumped 58% in 2005. This increase demonstrates the effectiveness of the strategic initiatives adopted by the Company in the last few years in terms of pricing, ongoing business growth and steady improvement in claims experience.

Group Pensions – Sustained and regular business growth over the last few years increased the operating income from \$9.5 million in 2004 to \$13.4 million in 2005, a 41% increase. The Group Pension sector benefited from changes in assumptions at the end of the year, mainly in terms of expected cost growth.

General Expenses

Control of general expenses, particularly unit costs, is an ongoing concern for the Company to make sure it remains competitive. Excluding investment management expenses, general expenses totalled \$273.1 million in 2005, a 6% increase compared to the previous year. Most of the increase in expenses is attributable to the increased expenses related to subsidiaries in the development phase (mainly in the mutual fund, securities and auto and home insurance sectors), National Life restructuring charges and the normal growth of business.

General Expenses
(Excluding Investment Management Expenses)



Embedded Value

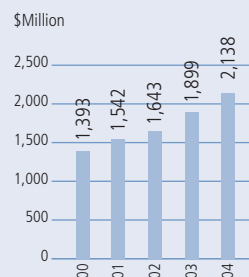
Highlights

- Embedded value of \$2.1 billion as at December 31, 2004 (\$26.90 per share), up 12.6% compared to 2003 after the payment of dividends (14.3% before the payment of dividends)
- Embedded value/book value ratio: 1.76x as at December 31, 2004, the highest ratio among Canadian life insurance companies that have disclosed their embedded value
- Embedded value of new sales in 2005: \$1.01 per share; 26% higher than in 2004
- Market guidance: the Company expects the recurring portion of embedded value to grow at a low double-digit growth rate each year (10.9% increase in 2004)

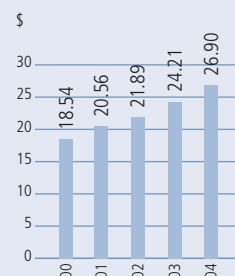
Embedded value is one of the best tools life insurance companies have for measuring their economic worth. Not only does embedded value provide the necessary information to estimate the value of a life insurance company, it also allows for a better understanding of the financial dynamics of a company and the various items that affect its performance. However, embedded value measures only the value of a life insurance company's in-force business, and does not take into account the Company's distribution capacity and future sales.

As at December 31, 2004, the date of the most recent valuation, Industrial Alliance's embedded value reached \$2.1 billion, an increase of \$239 million, or 12.6% compared to 2003. This value corresponds to \$26.90 per common share, which gives an idea of the economic worth of each outstanding share.

Embedded Value



Embedded Value per Common Share



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 have a direct impact on the embedded value. For example, in April 2004, 25% of the preferred shares issued by the Company were converted into common shares, resulting in a total increase in the embedded value of \$19 million (+1.0%), but a \$0.04 decrease in the embedded value per share. This decrease is due to the dilutive effect resulting from the conversion. Also note that the \$53.5 million transfer from National Life's participating policyholders' account to the retained earnings, announced in December 2004, increased the embedded value by \$26 million (+1.4%). This increase translates into a \$0.33 increase in the embedded value per share.

Embedded Value (continued)

Recurring items caused embedded value to increase by 10.9% in 2004 (+11.1% in 2003). 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.

Certain non-recurring items also affect the growth of the embedded value. The announcement of the integration of National Life in 2004 increased the embedded value by \$37 million (+2.0%) while the acquisition of BLC-Edmond de Rothschild decreased it by \$33 million (-1.7%). The good performance of the stock markets increased the embedded value by \$18 million (+0.9%).

The Company paid \$33 million in dividends to its shareholders in 2004, which represents a 1.7% decrease in the embedded value.

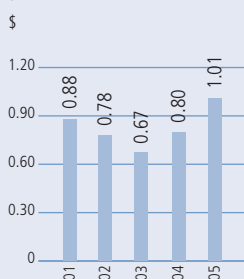
Embedded Value/Book Value Ratio

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 2004, the embedded value represented 1.76x the Company's book value. This is the highest ratio among all Canadian life 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.

Embedded Value of New Sales
per Common Share



In 2005, Industrial Alliance's new sales added \$80.2 million or \$1.01 per share to the Company's embedded value. This value is 26% higher than the previous year. This increase is primarily attributable to steady growth of segregated fund sales and the consideration of mutual funds in the calculation of the added value of sales.

Embedded Value Added in 2004

	Embedded value (\$Million)	Growth (%)	Embedded value per share (\$)
Embedded value as at December 31, 2003	1,899	—	24.21
Conversion of preferred shares in April 2004	19	1.0	(0.04)
Transfer from participating policyholders' account	26	1.4	0.33
Recurring items			
Expected growth of embedded value	143	7.5	1.76
New sales	64	3.4	0.80
Total of recurring items	207	10.9	2.56
Non-recurring items			
Experience gains or losses — related to the equity markets	18	0.9	0.23
Experience gains or losses — other	8	0.4	0.10
Changes in assumptions	(10)	(0.6)	(0.13)
Integration of National Life	37	2.0	0.46
Acquisition of BLCER ¹	(33)	(1.7)	(0.41)
Total of non-recurring items	20	1.0	0.25
Embedded value as at December 31, 2004, before dividends	2,171	14.3	27.31
Dividends paid to shareholders	(33)	(1.7)	(0.41)
Embedded value as at December 31, 2004	2,138	12.6	26.90

¹ BLC-Edmond de Rothschild Asset Management Inc.

Capitalization and Solvency

2005 Highlights

- Prudent and conservative capital structure
 - \$1.8 billion in capital, a 15% increase
 - 17.6% debt ratio on a pro forma basis (24.7% if the preferred shares are included in the calculation of the debt ratio); below the levels accepted by the rating agencies
- 198% solvency ratio as at December 31, 2005 (on a pro forma basis); at the upper end of the Company's 175% to 200% target range
- Over \$60 million in excess capital as at December 31, 2005 (on a pro forma basis). The excess capital should grow in 2006, since the Company only uses two thirds of its net income for organic growth and to pay dividends to shareholders.

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

Today, Industrial Alliance's capital structure is made up of three main categories of capital: equity, debt securities and the participating policyholders account. At the end of 2005, equity accounted for 78% of the Company's capital.

As at December 31, 2005, the Company's regulatory capital totalled \$1.8 billion, a 15% increase compared to December 31, 2004. This increase is primarily attributable to the following three factors:

- The consolidation of the \$62.9 million Clarington subordinated debenture, assumed by Industrial Alliance following the acquisition of this company;
- The issuance of \$48.5 million in Industrial Alliance common shares as part of the acquisition of Clarington; and
- The increase in retained earnings, net of dividends paid to shareholders.

The combined effect of these three factors increased the Company's debt ratio from 19.6% as at December 31, 2004 to 21.3% as at December 31, 2005. However, taking into account the issuance of \$125.0 million in preferred shares that the Company concluded on February 24, 2006, the anticipated buy-back of 1.8 million Industrial Alliance common shares (equivalent to the number of shares issued when Clarington was acquired) and the anticipated reimbursement of the \$62.9 million Clarington subordinated debenture (this debenture was assumed by Industrial Alliance when it acquired Clarington), the Company's debt ratio drops back down to 17.6%, if the debt items alone are considered in the calculation of the debt ratio, and increases to 24.7% if the preferred shares are included in addition to the debt items.

Capital Structure and Debt Ratio

As at December 31

(In millions of dollars, unless otherwise indicated)

	2001	2002	2003 ¹	2004	2005	2005 (Pro forma) ²
Capital structure						
Equity						
Common shares	382.0	382.0	438.3	458.1	510.6	456.2
Preferred shares	75.0	75.0	18.7	—	—	125.0
Retained earnings	397.6	470.2	627.5	751.7	845.4	845.4
Contributed surplus	—	3.3	6.5	9.5	12.3	12.3
Currency translation account	10.2	7.5	(2.5)	(5.8)	(7.1)	(7.1)
Sub-total	864.8	938.0	1,088.5	1,213.5	1,361.2	1,431.8
Debt securities						
Subordinated debentures	185.0	185.0	135.0	150.0	373.0 ³	310.1
Other debt ("IATS" ⁴)	—	—	150.0	150.0	—	—
Sub-total	185.0	185.0	285.0	300.0	373.0	310.1
Participating policyholders' account	53.4	59.5	13.2	17.3	19.7	19.7
Total	1,103.2	1,182.5	1,386.7	1,530.8	1,753.9	1,761.6
Debt ratio						
Debt/capital	16.8%	15.6%	20.6%	19.6%	21.3%	17.6%
Debt + preferred shares/capital	23.6%	22.0%	21.9%	19.6%	21.3%	24.7%

Solvency

The solvency ratio was 188% as at December 31, 2005, which is 34 percentage points lower than at the end of 2004. In spite of this decrease, the solvency ratio is still within the Company's 175% to 200% target range.

Several factors put upward or downward pressure on the solvency ratio in 2005. Following are some of the main factors that caused the solvency ratio to increase:

- The usual contribution of net income to the available capital, net of the increase in required capital related to normal business growth; and
- The issuance of \$48.5 million in Industrial Alliance common shares as part of the Clarington acquisition.

¹ Restated to take into account the transfer from the participating policyholders' account to the retained earnings account.

² The pro forma data as at December 31, 2005 take into account the following three factors: a \$125.0 million issue of preferred shares (concluded on February 24, 2006), the buy-back of 1.8 million Industrial Alliance common shares, equivalent to the number of shares issued as part of the Clarington acquisition (planned for the first quarter of 2006), and the reimbursement of the \$62.9 million Clarington subordinated debenture, assumed by Industrial Alliance when it acquired this company (planned for the first quarter of 2006).

³ Further to the application of AcG 15, the Company ceased to consolidate the Industrial Alliance Capital Trust (IATS) securities in the first quarter of 2005. Following this change, the \$150.0 million in IATS as well as a \$10.1 million Trust financing debenture were reclassified as subordinated debentures in Industrial Alliance's capital structure.

⁴ IATS: Industrial Alliance Trust Securities.

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

- The acquisition of Clarington, which led to the posting of \$227.4 million in goodwill; and
- The gradual introduction of new lapse risk requirements by the regulatory authorities.

The decrease in the solvency ratio recorded in 2005 is only temporary, since the issuance of \$125.0 million in preferred shares, the anticipated buy-back of 1.8 million Industrial Alliance common shares and the anticipated reimbursement of the \$62.9 million Clarington subordinated debenture will increase the solvency ratio to 198%, which is in the upper end of the Company's 175% to 200% target range.

The Company would then have just over \$60 million in excess capital. This excess capital should gradually grow during the year, since the Company estimates that it only uses two thirds of its net income for organic growth and to pay dividends to shareholders.

Solvency and Excess Capital

At as December 31

(In millions of dollars, unless otherwise indicated)	2001	2002	2003 ¹	2004	2005	2005 ²
(Pro forma) ²						
Solvency						
Available capital						
Net tier 1	681.0	695.0	996.1	1,246.2	1,187.5	1,258.1
Net tier 2	317.8	342.4	295.8	136.1	134.9	134.9
Total	998.8	1,037.4	1,291.9	1,382.3	1,322.4	1,393.0
Required capital	534.3	556.5	583.7	624.0	704.5	704.5
Solvency ratio (MCCSR ³)	187%	186%	221%	222%	188%	198%
Excess capital	—	—	110	158	—	62

Number of Shares

The number of issued and outstanding shares as at December 31, 2005 was 81,387,151, an increase of 1,897,841 over December 31, 2004. This increase is primarily attributable to the following two factors:

- The issuance of 1,720,985 common shares as part of the Clarington acquisition (if the shares issued at the beginning of 2006 are taken into account, the number of common shares issued by Industrial Alliance as part of the Clarington acquisition is 1,811,165); and
- The issuance of 179,800 common shares subsequent to the exercising of options under the Company's stock option plan.

Stock Option Plan

In accordance with the plan adopted by the Board of Directors in 2001, in 2005 the Human Resources and Corporate Governance Committee issued 536,000 new stock options. These new options, which expire in 2015, were granted at a weighted average exercise price of \$28.72.

Credit Ratings

In 2005, the three independent credit agencies that rate Industrial Alliance renewed all of their ratings for the Company with a stable outlook. These three agencies also assigned an additional rating to the Company related to the preferred share issue that was concluded on February 24, 2006. These ratings confirm the Company's financial solidity and its ability to respect its obligations to policyholders and creditors.

Credit Rating

Rating Agency	Type of Evaluation	Rating	Trend
Standard & Poor's	Financial Strength Rating	A+ (Strong)	Stable
	Issuer Credit Rating	A+/Stable/—	Stable
	Subordinated debentures	A-	Stable
	Industrial Alliance Trust Securities (IATS)	BBB+	Stable
	Preferred shares		
	Canadian scale	P-2 (High)	Stable
DBRS	Global scale	BBB+	Stable
	Claims Paying Ability	IC-2	Stable
	Subordinated debentures	A	Stable
	Industrial Alliance Trust Securities (IATS)	A (low)yn	Stable
A.M. Best	Preferred shares	Pfd-2 (High)n	Stable
	Financial Strength Rating	A (Excellent)	Stable
	Issuer Credit Rating	a+	Stable
	Subordinated debentures	a-	Stable
	Industrial Alliance Trust Securities (IATS)	bbb+	Stable
	Preferred shares	bbb+	Stable

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 in the normal course of its activities, from February 13, 2006 to February 12, 2007, up to 3,900,000 of its common shares, representing approximately 4.8% of the 81,469,199 Common Shares issued and outstanding on February 6, 2006.

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 be cancelled.

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, particularly in light of the recent completion of the takeover of Clarington Corporation.

No common shares were purchased under previous Normal Course Issuer Bids.

¹ Restated to take into account the transfer from the participating policyholders' account to the retained earnings account.

² The pro forma data as at December 31, 2005 take into account the following three factors: a \$125.0 million issue of preferred shares (concluded on February 24, 2006), the buy-back of 1.8 million Industrial Alliance common shares, equivalent to the number of shares issued as part of the Clarington acquisition (planned for the first quarter of 2006), and the reimbursement of the \$62.9 million Clarington subordinated debenture, assumed by Industrial Alliance when it acquired this company (planned for the first quarter of 2006).

³ MCCSR: minimum continuing capital and surplus requirements.

Personal Financial Services

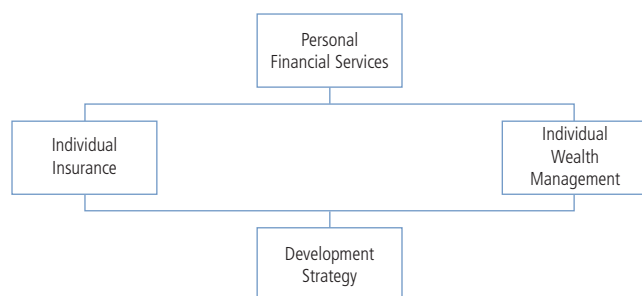
Industrial Alliance offers insurance, annuity, savings and investment products to individuals through two major lines of business: Individual Insurance and Individual Wealth Management.

In the Individual Insurance sector, the Company offers a wide range of products tailored to the needs of clients seeking insurance coverage in the event of death, critical illness, disability or other illnesses.

In the Individual Wealth Management sector, the Company offers savings and investment products through a variety of investment vehicles such as GICs (guaranteed investment certificates), segregated funds and mutual funds, as well as distributing traditional annuity products.

The Company has an integrated development strategy for all of its personal financial services.

The following section presents the results pertaining to business growth and the main achievements of the Individual Insurance and Individual Wealth Management sectors in 2005, as well as the Company's overall development strategy for these sectors.



Individual Insurance

2005 Highlights

- Sales growth
 - \$141.3 million in sales, a new high
 - 1% increase in sales, despite a major reorganization of the distribution networks
 - Fourth in Canada for individual insurance sales, with a 12.7% market share
 - First in Canada for Universal Life sales, with a market share of 16.9%
- Main achievements
 - Reorganization of the distribution structure by network rather than by company
 - Launch of a new generation of Universal Life insurance policy
 - Launch of a new quick payment permanent life insurance policy

The Individual Insurance sector met a major challenge in 2005 by successfully implementing a new organizational structure for product distribution while continuing to grow its sales, which even reached a new high. The reorganization of the distribution activities is a major achievement for the sector, further strengthening the effectiveness of its distribution system.

Business Growth

Sales in the Individual Insurance sector totalled \$141.3 million in 2005, the highest sales volume ever achieved by the Company, and 1% higher than in 2004. The Company is pleased with this result given the various changes that were made to the distribution structure during the year (refer to the section on 2005 Achievements at the end of this section for more details).

Industrial Alliance is still a leader in Canada in Individual Insurance sales, ranking fourth in 2005 with a 12.7% market share.

Individual Insurance Business Growth

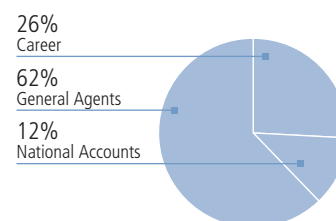
(In millions of dollars, unless otherwise indicated)

	2001 ¹	2002	2003	2004	2005
Sales ²	135.6	133.3	128.7	139.9	141.3
Growth	8%	(2%)	(3%)	9%	1%
Premiums	642.8	663.9	683.4	763.1	768.7
Growth	8%	3%	3%	12%	1%

By distribution network, 2005 sales were up some 4% and 12% respectively in the Career and National Accounts networks, but down 2% in the General Agents network. The merging of the operations of National Life with those of the parent company specifically impacted the former brokers attached to this network. Still, sales in the General Agents network accounted for 62% of the Company's sales in the Individual Insurance sector.

Sales by Distribution Network

2005



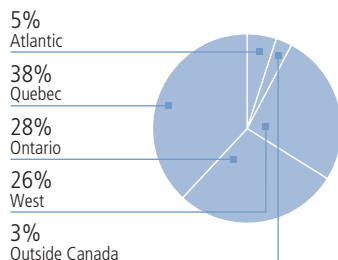
By region, sales were up in the Atlantic provinces (+5%) and the Western provinces (+8%), but were down 4% and 3% respectively in Quebec and Ontario compared to the previous year. As the figure below shows, individual insurance sales outside Quebec accounted for 62% of the new business for 2005.

¹ The 2001 data does not include the premiums for the business underwritten with members of the Canadian Medical Association (CMA). The CMA business is excluded so the data can be compared from one year to another. The CMA business was transferred to a satellite company, MD Life Insurance, jointly owned by MD Management (55%) and Industrial Alliance (45%).

² In the Individual Insurance sector, sales are defined as first-year annualized premiums.

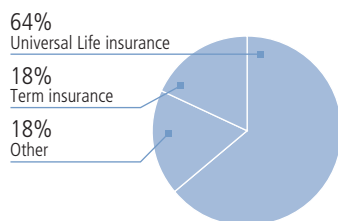
Sales by Region

2005



Sales by Product

2005



By product, sales of term insurance products were up sharply in 2005. Even though the results are positive in this market niche, it is important to note the very strong competition that has prevailed in this market for the last several years. This translates into constant pressure on pricing. Our position, and also our challenge, is to maintain a competitive offer for our clients and our distribution networks. So far, this position has ensured our unfaltering success.

The Universal Life policy remains the Company's most popular product, even though sales were down slightly in 2005. In proportion, these policies accounted for 64% of the sector's total sales, compared with 53% for the industry. The Company was ranked first in Canada in 2005, with 16.9% of all new Universal Life policy sales. The

Company has held this rank for several years, thanks to the strategic development initiatives continually being introduced by the sector.

Strong sales and good business persistency increased premium income in the Individual Insurance sector by 1%, bringing it to \$768.7 million in 2005. This modest increase is largely due to the fact that the 2004 premiums include an amount of \$30.6 million related to the repatriation of a National Life block of reinsurance. This is a non-recurring event. Without this repatriation, premium income would have increased by 5% in 2005.

2005 Achievements

From a strategic standpoint, the highlight of the year was the implementation of a new distribution structure, by network rather than by company, following the merging of the operations of National Life with those of the parent company. This new structure, which took effect on January 1, 2005, required the implementation of several major projects, including:

- The integration of the Industrial Alliance (parent company), Industrial Alliance *Pacific* and National Life sales teams, which are now organized by distribution network (Career, General Agents, and National Accounts), rather than by company;
- The reorganization of the vice-presidents in charge of the different distribution networks, in order to maximize business development efforts across Canada;

- The implementation of a single remuneration structure for the various distribution networks, which favours long-term relationships with the representatives;
- The introduction of a single product line for the various distribution networks, which required the harmonization of product prices; and
- The harmonization of back-office systems and procedures (sales support, risk selection rules, sales force remuneration tools, etc., for the Company's three service centres in Quebec City, Toronto and Vancouver).

On the product front, we continued to adapt our product line in order to maintain our competitive position, while seeking to stand out through innovation. Following are two of the main initiatives introduced in 2005:

- **Universal Life insurance** – 2005 was highlighted by the introduction of a new Universal Life insurance policy. This policy combines the most advantageous features of the Industrial Alliance and Industrial Alliance *Pacific* policies with those of the National Life policy, while maintaining the product's profitability. Some major technological innovations were added to this product, including the creation of a sales illustration application using a new state-of-the-art technology platform, placing the Company in the forefront of the market. Over 100 employees from various Company divisions contributed to this project, which was the largest this sector has seen in a long time.
- **Permanent life insurance** – The sector also continued to expand its individual insurance product line with the introduction of a new quick payment permanent life insurance policy. What's different about this new policy is that all premiums paid are refunded at death, in addition to the benefits normally paid to the beneficiary.

Lastly, from a technological and administrative standpoint, the Company began to harmonize the back-office systems and procedures of the Toronto Service Centre (formerly the head office of National Life) with those of Industrial Alliance. This harmonization aims to integrate the activities related to contract issue and the processing of client data with the parent company's back-office systems.

Individual Wealth Management

2005 Highlights

- **Business growth**
 - Record sales of \$1.5 billion, up 61%
 - Better sales results – and net sales – of the Company's segregated funds (third with respect to net sales in Canada, with 15.8% of the market)
 - First year as a mutual fund manufacturer: \$412.6 million in sales
 - \$12.2 billion in assets under management, almost double the amount in 2004
- **Achievements**
 - Acquisition of Clarington Corporation, a mutual fund manager (on December 28, 2005)
 - Integration of BLC-Edmond de Rothschild Asset Management Inc., a mutual fund manager acquired on December 31, 2004

The Individual Wealth Management sector stole the spotlight in 2005. The excellent results achieved by the sector all year long were driven by strong sales growth, excellent stock markets, the solid performance of our segregated funds and the Company's entry into the mutual fund sector.

The sector's expansion into mutual fund management in 2005 was also marked by two major acquisitions: BLC-Edmond de Rothschild Asset Management Inc., on December 31, 2004, which was integrated with our mutual fund subsidiary during the year, and Clarington Corporation, on December 28, 2005.

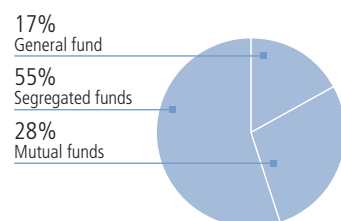
Business Growth

General fund, segregated fund and mutual fund sales surpassed the billion dollar mark for the first time in 2005, reaching \$1.5 billion. This represents growth of 61% compared to the previous year and is more than double the 2003 result. The sector recorded higher sales in all product categories, all distribution networks and all regions of Canada.

Individual Wealth Management Sales¹

(In millions of dollars, unless otherwise indicated)	2001	2002	2003	2004	2005
General fund	147.4	198.7	227.9	237.5	242.4
Segregated funds	381.7	392.0	430.8	669.3	805.2
Mutual funds	—	—	—	—	412.6
Total	529.1	590.7	658.7	906.8	1,460.2
Growth	(14%)	12%	12%	38%	61%

Sales by Product 2005



Even though the Company is only in its first year in the mutual fund sector, sales of this product accounted for 28% of sales for the year. The Clarington purchase at the end of 2005 should rapidly increase this proportion even further.

By product, segregated funds had a particularly good year owing to the solid

performance of the Company's fund managers and to strong stock markets. Segregated fund sales grew 20% in 2005, after having grown an appreciable 55% in 2004.

In terms of mutual funds, the Company is proud of its first real year as a mutual fund manufacturer. The results exceeded objectives, both for sales by the Laurentian Bank network, with which we signed a ten-year distribution agreement just over a year ago, and sales generated by independent advisors, particularly those affiliated with the Company's mutual fund distribution networks (Investia, FundEX and Industrial Alliance Securities).

For traditional general fund products (essentially guaranteed interest products and insured annuities), fund entries grew by 2% in 2005. These products are less popular when the stock markets are performing well (as has been the case for the last few years) and when interest rates are low (as has also been the case for the last few years).

With respect to net investment fund sales (segregated funds and mutual funds), the results are also excellent. Net sales totalled \$696.1 million, which represents just over double the previous year's net sales. Net sales correspond to almost 60% of gross investment fund sales, a particularly high proportion compared to the segregated fund and mutual fund industries combined, which amount to 15%.

Individual Wealth Management Net Sales

(In millions of dollars, unless otherwise indicated)	2004	2005
Segregated funds	332.7	547.4
Mutual funds	—	148.7
Total	332.7	696.1
As a percentage of gross sales	50%	57%

In terms of market position, the Company was ranked third in Canada with respect to net segregated fund sales in 2005, with a 15.8% market share, one of the Company's best results in this regard. Since 2000, the Company has been acquiring an increasingly higher market share, which has grown from 4.2% in 2000 to 15.8% in 2005.

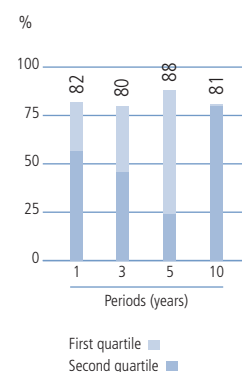
Positive net sales, a good stock market performance and the acquisition of Clarington (at the end of 2005) boosted the sector's assets under management to \$12.2 billion, an 83% increase for 2005. The Company was ranked fourth in Canada with respect to segregated fund assets as at December 31, 2005, with 8.3% of the market (7.6% as at December 31, 2004).

Individual Wealth Management Funds Under Management

(In millions of dollars, unless otherwise indicated)	2001	2002	2003	2004	2005
General fund	1,722	1,738	1,775	1,771	1,696
Segregated funds	2,928	2,795	3,262	3,871	4,851
Mutual funds	—	—	94	1,019	5,660
Total	4,650	4,533	5,131	6,661	12,207
Growth	0%	(3%)	13%	30%	83%

Proportion of Segregated Fund Assets Whose Gross Relative Performance Is Above the Median

As at December 31, 2005



Finally, part of the Company's success in the Individual Wealth Management sector is the result of the performance obtained by its segregated fund managers. Hence, as at December 31, 2005, 80% or more of the Company's segregated fund assets were in funds whose gross relative performance was above the median for one, three, five and ten-year terms. Moreover, just over 73% of the segregated fund assets are managed by the Company's in-house managers.

2005 Achievements

From a strategic standpoint, while the acquisition of BLC-Edmond de Rothschild Asset Management at the end of 2004 launched the Company into the vast world of mutual fund management, the Clarington purchase at the end of 2005 made the Company into a scale manufacturer. Today, Industrial Alliance is among the top 20 investment fund managers (mutual funds and segregated funds combined) for the retail market in Canada, with \$10.5 billion in assets under management, and among the top 10 for the independent advisors network.

¹ In the Individual Wealth Management sector, sales are defined as premiums for the general fund and segregated funds, and as deposits for mutual funds.

From a product standpoint, the growth and strength of the Individual Wealth Management sector is the result of various strategic initiatives. Following is an overview of the main initiatives that took place in 2005.

- **New investment funds** – We improved our service offer by launching six new segregated funds. Four of them are also wrapped as mutual funds through the Company's mutual fund subsidiary, Industrial Alliance Fund Management, which leverages the synergies between the parent company and this subsidiary. This initiative is also part of a larger strategy that aims to grow the Company's funds under management (products manufactured by Industrial Alliance).
- **Investment loan** – We introduced a new investment loan for clients familiar with stock markets and who wish to grow the non-registered portion of their savings. This new loan offering relies on a leverage effect, which is more competitive and more flexible.
- **Retirement products** – We launched an innovative new registered retirement income fund (RRIF) product. Through a new investment option, the new "life investment" contract allows the contract holder to receive a retirement income that is guaranteed for life. It combines the advantages and security of a single premium annuity with the flexibility of a redemption option. This innovative and unique new RRIF contract is a turnkey product that can be used to make simplified and favourable recommendations to clients.
- **Guaranteed capital product** – We introduced a new variable return guaranteed capital product. This new product, called "Principal Guaranteed with Market Investments," targets a clientele that is seeking security and performance through the underlying investments selected for this type of product.

From a technological and administrative standpoint, we harmonized the National Life savings administration system with that of Industrial Alliance. This initiative will make it possible to support a single family of investment funds for the sectors related to individual wealth.

Finally, in information systems, we began a large-scale project to provide the Company with a single administration system for segregated funds and mutual funds. This project also aims to enhance the synergies among our various investment fund activities, in order to reduce operating expenses as much as possible. This single system is expected to be implemented in 2007.

Development Strategy

Industrial Alliance has been a leader in the personal financial services market for several years. In the last few years, the Company's action plan in this market have been centred around the following strategy:

- **Distribution networks** – Build profitable distribution networks through which we can distribute products manufactured by Industrial Alliance.
- **Products** – Offer a comprehensive line of competitive, innovative and profitable products.
- **Operating expenses** – Keep unit costs down as much as possible.

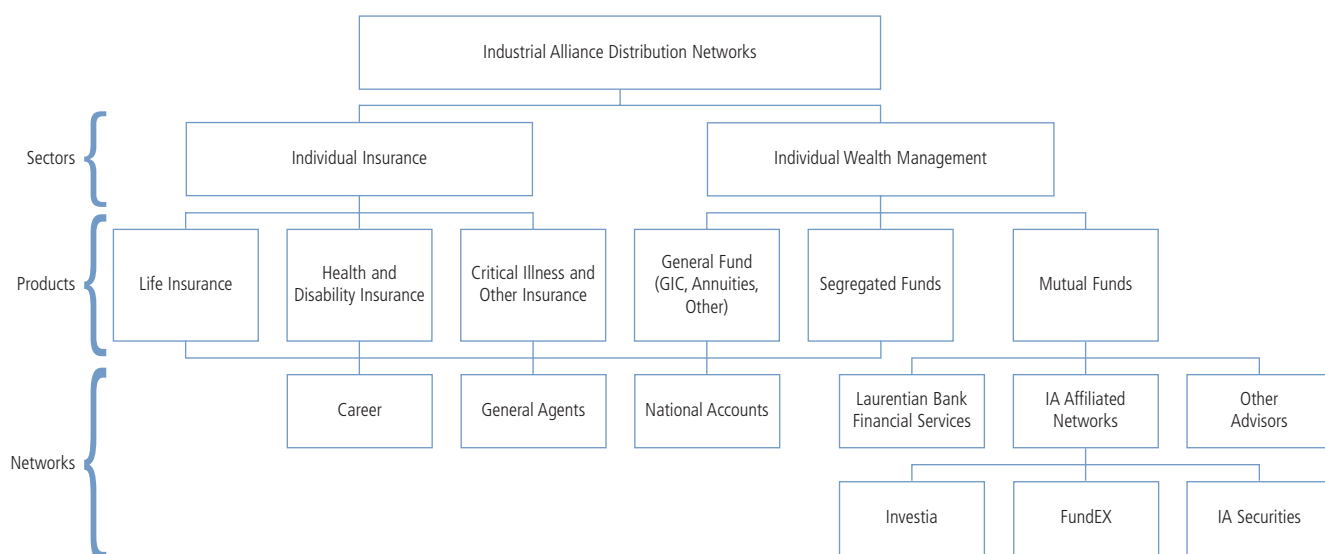
Distribution Networks

What sets Industrial Alliance apart in the retail market is the size and scope of its distribution networks. As we can see in the diagram that follows, the Company has a variety of networks for distributing its products. The Company also manufactures most of the products it distributes, from insurance and annuity products to segregated funds and mutual funds. These products are offered in all parts of the country and to all layers of the population.

The Clarington acquisition enabled the Company not only to reach scale in the mutual fund management market, but also to significantly expand its distribution networks, particularly among securities brokers, a market which was almost totally untapped by the Company.

To remain a leader in distribution, the Company plans to pursue its efforts to recruit new agents in all its distribution networks. The managers in charge of the various networks have very specific recruiting objectives.

In addition, we are not ruling out the possibility of expanding our mutual fund and securities distribution networks through acquisitions, if the opportunity should present itself as it did in the past few years with the acquisition of nearly eight mutual fund brokerage and securities firms.



Products

The range of products offered by Industrial Alliance plays a key role in the Company's success. In order to keep our various distribution networks interested in our products, it is important to remain innovative, to watch for new opportunities and to make the changes required to keep our service offer competitive and profitable.

In the Individual Insurance sector, we plan to design and promote certain sales tools to selected distributors in order to increase our penetration in this high-end market segment. With interest rates continuing to drop, we will be taking aggressive measures to ensure that our products continue to meet profitability expectations.

In the Individual Wealth Management sector, we plan to put innovative products in place in anticipation of a stock market downturn, and to leverage the synergy between our segregated fund and mutual fund service offer.

Operating Expenses

Lastly, in order to reduce unit costs, we plan to:

- Integrate Clarington into Industrial Alliance Fund Management, particularly in terms of establishing unit values, product harmonization and fund management;
- Adopt an infrastructure that will allow us to manage mutual funds and segregated funds on the same technology platform; and
- Complete the administration systems component of the National Life integration.

Auto and Home Insurance

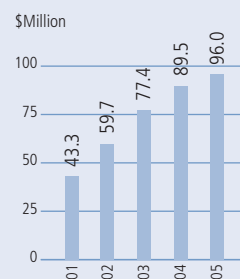
Industrial Alliance markets its auto and home insurance products through its Industrial Alliance General Insurance Company subsidiary, known under the commercial name Industrial Alliance Auto and Home Insurance (IAAH). These products are distributed in Quebec to individuals. They are distributed directly, mainly through referrals provided by representatives from the parent company's Career network (over 1,400 representatives). Industrial Alliance Auto and Home Insurance has 367 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. In consequence, IAAH has succeeded in tripling its market share in the retail insurance market in the last five years, while providing the parent company with a higher than expected return on investment. The following distinct advantages enabled IAAH to achieve this profitable development: the parent company's distribution networks, which represent a unique patronization potential, and the recognition of the "Industrial Alliance" brand name in Quebec.

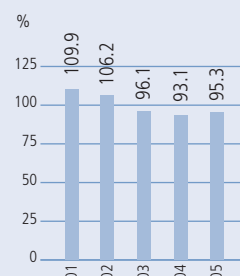
The year can be summarized as follows at IAAH: growth rate difficult to maintain due to intensified competition, high claims experience in home insurance caused by multiple instances of water damage, totally offset by excellent claims experience in auto insurance and strict control over operating expenses.

Direct written premiums in auto and home insurance totalled \$96.0 million in 2005, a 7% increase over 2004, whereas the industry level should be probably somewhere between 1% and 2%.

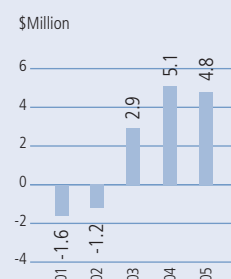
Direct Written Premiums¹



Rate of Claims and Commissions and Expenses



Net Income



In terms of profitability, IAAH earned a net income of \$4.8 million, thus providing the parent company with a much higher return than the target range for a second consecutive year.

IAAH has set itself a goal to become a leader in direct distribution in Quebec by offering Industrial Alliance clients and the general public quality general insurance products and services, at the best possible price. 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. However, the company will have major challenges to overcome in the coming years, particularly the shortage of qualified damage insurance agents and the increased number of home insurance claims due to water damage.

¹ Excluding the business written for Industrial Alliance Pacific General Insurance Company.

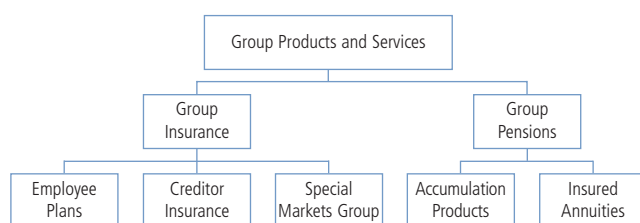
Group Products and Services

In addition to distributing its products to individuals through the Individual Insurance and Wealth Management sectors, the Company distributes a broad 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 (primarily with car dealers, but also with financial institutions) and special risk 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.



Group Insurance Employee Plans

2005 Highlights

- **Business growth**
 - \$578.3 million in premiums and premium equivalents, up 6%
 - \$52.3 million in sales, down 6%
 - Over half of all sales (52%) made outside Quebec, a first for the division
 - 5th in Canada for sales in our target market of groups with 50 to 1,000 employees, with a market share of 8.1% (6th in 2004, with 7.1% of the market)
- **Main target markets**
 - Canada-wide development, particularly outside Quebec
 - Medium-sized businesses (50 to 1,000 employees)

The Group Insurance Employee Plans sector continued to grow in 2005, thanks to premium growth of 6% and increased sales outside Quebec, which accounted for 52% of the sector's total sales. Sales growth was particularly strong in the Prairies and in British Columbia.

Business Growth

Group Insurance Employee Plan sales totalled \$52.3 million in 2005, a decrease of 6% over the previous year. This decrease was primarily due to weak sales in the large groups market.

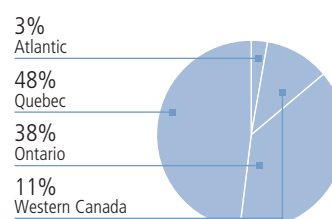
Group Insurance – Employee Plans Business Growth

(In millions of dollars, unless otherwise indicated)	2001	2002	2003	2004	2005
Sales ¹	59.1	92.4 ²	53.3	55.7	52.3
Growth	58%	56%	(42%)	5%	(6%)
Premiums	331.6	378.6	426.0	448.4	475.4
Premium equivalents ³	33.5	43.9	99.2	96.1	102.9
Total	365.1	422.5	525.2	544.5	578.3
Growth	20%	16%	24%	4%	6%

By region, sales were down in the Atlantic provinces and Quebec, but remained fairly stable in Ontario and more than doubled in western Canada. By group size, sales were good in our target market of medium-sized groups, accounting for 69% of our sales for the year, but were down in the large groups market.

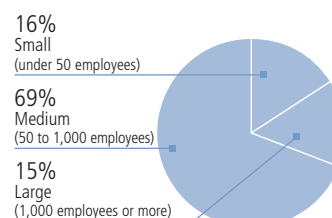
Sales by Region

2005



Sales by Group Size

2005



Despite the decline in new business, our sales compare favourably with industry results. For the entire market, the year ended with an 11% decrease in sales for the industry (compared to 6% for Industrial Alliance). For our target market of groups with 50 to 1,000 employees, our sales were up 6% in 2005, compared to a 2% decrease for the industry. As a result, we increased both our ranking and our market share in 2005. At the end of the year, we were ranked sixth for the industry as a whole, with 4.0% of the market (seventh in 2004, with 3.6% of the market), and fifth for our target market of groups with 50 to 1,000 employees, with 8.1% of the market (sixth in 2004, with 7.1% of the market).

¹ In the Group Insurance Employee Plans sector, sales are defined as first-year annualized premiums.

² 2002 sales include an amount of \$50.9 million for the Bombardier contract.

³ Premium equivalents are income from administrative services only (ASO) contracts.

Despite slightly lower sales and business persistency than expected, premiums and premium equivalents (premium equivalents correspond to income from administrative services only contracts), peaked at \$578.3 million in 2005, an increase of 6% over the previous year.

When considered over a longer period, premiums and premium equivalents have increased by almost 60% since 2001. This is due to several factors: strong sales over the past few years, good business persistency and rising health care costs.

2005 Achievements

A number of client-based initiatives were completed in 2005.

The process to change the contracts issued by National Life and Industrial Alliance *Pacific* to the Industrial Alliance brand was completed in April 2005. This project was initiated in January 2004 to strengthen the positioning of Industrial Alliance in the Canadian market. The market responded favourably to this initiative, as indicated by the increase in sales outside Quebec since the brand was changed.

In response to requests from certain clients, we also designed an expatriate health insurance product for Canadians working outside Canada for extended periods of time. This new product reflects the special needs of these clients by covering such costs as maternity expenses and the cost of preventative services (medical tests), and through access to an assistance service specially designed for employees working abroad and their families.

We are continually adding new functions to Web@dmin, the Internet software we offer our clients (intermediaries, administrators and plan members). In 2005, we continued to make improvements to this tool, which included giving plan members access to considerably more information about the coverages offered under their supplemental health and dental care plans. Information frequently requested from the customer service representatives in our call centres is now available online, including deductible amounts and reimbursement percentages, maximum reimbursement amounts, and the date on which certain expenses (vision care, for example) are reimbursed 100%, to name just a few.

Training and quality control procedures were improved in our Montreal and Toronto customer service centres. We can also improve how we train our teams on the special features of new groups. In our Montreal service centre, we completed the implementation of an imaging process for managing disability insurance files. This tool gives analysts instant access to short and long-term disability insurance claim files, thus resulting in better customer service and lower file storage and handling costs.

Development Strategy

Despite fewer companies in the industry, the market is still very competitive, with the three largest insurance companies holding approximately two thirds of the Canadian market. In order to thrive in this environment, we need to stand out from our competitors by offering quality service at competitive rates. Our goal is to be considered by the stakeholders (market intermediaries and plan sponsors) as the insurer of choice, one that is focused on the needs of its clients.

Industrial Alliance is now recognized as a national company. This kind of recognition 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 2006 focuses on the following six elements:

- **Canada-wide development** – In terms of business growth, we will continue our efforts to grow our market share, especially outside Quebec.
- **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. Note that in the small groups market (fewer than 50 employees), our goal is to focus on a smaller number of organizations that specialize in the distribution and administration of insurance plans for small and medium-sized businesses.
- **Opportunistic towards larger group sales** – Our goal is to increase our market share for the larger business market (groups with more than 1,000 employees), especially outside Quebec. Given the quality and flexibility of our service offer, combined with our strengthened business relationships with actuarial consulting firms, we are confident that we can increase our presence in this market.
- **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 clearly identifying their changing needs and responding to them more effectively. For example, we give them access to the financial information regarding their plans through various means (paper reports and electronic access).
- **Redesign project for new business and pricing management systems** – In 2006, we will be setting up an integrated system for managing new business and for calculating rates for quotations and renewals. This system will be administered on an intranet/Internet platform, and will help us manage our distribution activities more effectively, reduce our data processing costs, improve the information we send to our distributors and, in the medium term, upgrade our new group installation process.
- **Improvement of the product line** – In terms of products and services, we will be improving our tools for promoting good health and preventing absenteeism by providing members with a "Health and Well-Being" section on our website. We will also be adding new functions to Web@dmin, one of which will allow plan members with flexible, modular-type plans to choose modules directly from the website during re-enrolment campaigns, which typically take place every two years.

Lastly, in terms of profitability, we will continue to focus on our key success factors: control of operating costs, 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 having 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 service centres.

- By being “attentive and flexible”. This is defined as the ability to continually develop simple and efficient solutions that meet the real needs of our clients, 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, in particular, 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. It’s not just about doing things well, it’s also about doing what’s right for our clients.

Group Insurance Creditor Insurance

2005 Highlights

- **Business growth**
 - \$158.8 million in sales, up 20% in spite of a weak sales car market
- **Competitive advantages**
 - Number one in Canada in the motor vehicle dealers market, with over 40% of the market
 - The only company with an exclusive direct distribution network
 - Low unit costs owing to economies of scale based on company size
- **Development strategy**
 - Continue to expand in Quebec
 - Launch new products
 - Target dealers enrolled in reinsurance programs
 - Continue to seek out acquisitions

Description of Sector

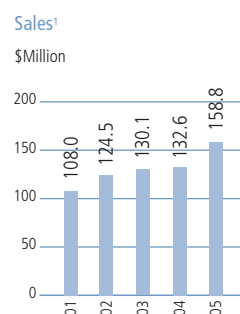
In addition to employee benefit plans, the Group Insurance sector also distributes creditor insurance products (life, disability and critical illness) to automobile and recreational vehicle dealers. These products are offered through an exclusive Canada-wide direct distribution network through a division 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.

2005 Achievements

The Group Creditor Insurance sector had a very impressive year in 2005, significantly outperforming the light vehicle sales market, which was up 3%.

Creditor insurance sales reached \$158.8 million, up by 20% over 2004 and 10% on average over the past five years.

The main achievement of the Group Creditor Insurance sector in 2005 was its continued growth despite weak car sales. This growth was primarily attributable to the following factors:



- The outstanding performance of the distribution network, which signed on new motor vehicle dealers and leverage its business relationships with existing dealers;
- The development of the new offshore program for motor vehicle dealers;
- Competitive pricing, which was made possible through strict management of operating expenses;
- Continued expansion in Quebec;
- The launch of new P&C products.

Creditor Insurance Business Growth

(In millions of dollars, unless otherwise indicated)	2004	2005	Variation
Sales ¹	132.6	158.8	20%
Reinsurance	22.8	26.7	17%
Premiums	109.8	132.1	20%

Competitive Advantages

Industrial Alliance *Pacific*’s success in the creditor insurance market among motor vehicle dealers is based on several competitive advantages.

- It is number one in Canada in the motor vehicle dealers market, with a market share of over 40%;
- It is the only company with an exclusive Canada-wide direct distribution network;
- It has low unit costs owing to economies of scale based on company size.

Development Strategy

The strategy to develop the Group Creditor Insurance division among motor vehicle dealers encompasses three key components:

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

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

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 to expand in Quebec** – Industrial Alliance *Pacific* has experienced significant growth in the Quebec market over the last four years, due to the efforts of a talented distribution team, by leveraging Industrial Alliance brand awareness in the province. Industrial Alliance *Pacific's* creditor sales in Quebec have grown from \$10 million in 2000 to \$36 million in 2005.
- **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 has been 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.
- **Target dealers enrolled in reinsurance programs** – We will continue to focus on enrolling dealers in our reinsurance program. We estimate our share of this market segment to be 20%, substantially lower than our share of the overall motor vehicle dealer market. The program's marketability has been increased due to the general awareness created by the steady growth in the number of participating dealers, as well as the introduction of two ancillary products.
- **Continue to seek out acquisitions** – We intend to continue our efforts to seek out acquisition opportunities in the marketplace.

Group Insurance Special Markets Group (SMG)

2005 Highlights

- **Business growth**
 - \$87.4 million in sales, up 10%
- **Competitive advantages**
 - Considerable expertise in the AD&D and special risks market
 - Excellent reputation for customized service and business solutions
 - Local presence
- **Development strategy**
 - Exploit new niche markets
 - Enhance the product offer in the affinity groups market
 - Develop relationships with new distributors of AD&D insurance and other specialized products

Description of Sector

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

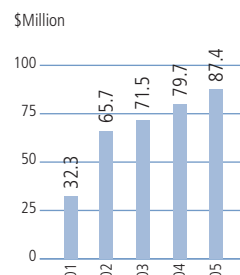
SMG primarily offers accidental death and dismemberment (AD&D) insurance and other specialized insurance products to employers and associations, travel and health insurance (through distribution partners), student health insurance (through student associations), and term life insurance to alumni associations and other affinity groups.

SMG distributes its products from four regional offices with dedicated sales staff in each office. The four offices are located in Vancouver, Calgary, Toronto and Montreal.

2005 Achievements

SMG had another strong year in 2005, with premiums growing 10% over 2004 to \$87.4 million. All main segments of SMG business achieved growth

Sales (Premiums)¹



in 2005. Premiums for the core AD&D business grew by 11%. This growth was due in part to improvements made to the AD&D product offering in 2005. These improvements helped SMG remain the market leader in AD&D innovation. Travel business grew by 6%; student health insurance grew by 30%; and affinity business grew by 6%.

Development Strategy and Market Opportunities

SMG's core strength is a strong reputation for customer service and special risk solutions. Local presence combined with strong expertise enables the sales force to provide solutions and maintain quality relationships with business partners across Canada. The division will continue to grow by leveraging its expertise and relationships.

Our goal is to be the leader in providing innovative and unique special risk insurance solutions for our clients' needs. We believe in personal service, building strong relationships, and providing our clients with the confidence, trust and reliability of partnering with a solid, dependable and innovative financial institution.

The strategy of the SMG division rests on the following three components:

- Exploit new niche markets that are not well serviced by traditional insurance product carriers. SMG investigates all new potential markets thoroughly and only enters those that have the growth potential and the ability to meet corporate profitability goals.
- Enhance product offerings to the affinity market. Offering a more competitive range of products in this market will attract new affinity groups and increase penetration to existing customers.
- Develop relationships with new distributors of AD&D insurance and other specialized products.

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

Group Pensions

2005 Highlights

- Business growth: up sharply
 - \$564.8 million in premiums, up 22%
 - Sale of new accumulation product plans
 - \$306 million in annualized premiums, up 36%
 - Higher sales outside of Quebec than in Quebec, a first for the sector
- Development strategy
 - Focus on accumulation products
 - Canada-wide development
 - Development of institutional money management
 - Growth of distribution networks
 - Enhancement of product and service offer

Once again this year, the Group Pensions sector reaped the rewards of the intense development efforts initiated a few years ago in all parts of the country.

Accumulation products reached new highs in terms of new plan sales, recurring premium growth and the volume of business written outside Quebec. On the insured annuities front, an unexpectedly strong market enabled it to greatly exceed the objectives set out at the beginning of the year, as well as past years' results.

Business Growth

Overall, 2005 premiums totalled \$564.8 million, an increase of 22% for the year. Accumulation products generated growth of 14%, with \$410.5 million in new premiums, while insured annuities recorded growth of 55%, which corresponds to \$154.3 million in new premiums. Over the last five years, the sector recorded average annual growth of 23% on its regular operations. This achievement is a reflection of the development efforts initiated over the last few years in an effort to position the Group Pensions sector among the key players in the Canadian market.

Group Pensions Premiums (Sales)

(In millions of dollars, unless otherwise indicated)	2001	2002	2003	2004	2005	Variation	
						2005 vs. 2004	5-year CAGR ¹
Insured annuities	133.9	86.0	109.9	99.8	154.3	55%	20%
Accumulation products – Regular operations							
Recurring premiums	74.3	131.0	159.3	192.1	231.4	20%	33% ²
Transfers	26.8	87.8	99.7	169.2	179.1	6%	61% ²
Sub-total	101.1	218.8	259.0	361.3	410.5	14%	24%
Total – Regular operations	235.0	304.8	368.9	461.1	564.8	22%	23%
Accumulation products – Special operations							
Canadian Medical Association	172.0	–	–	–	–	–	–
National Bank Trust transfer	–	186.6	187.5	–	–	–	–
Grand total	407.0	491.4	556.4	461.1	564.8	22%	–

Accumulation Products

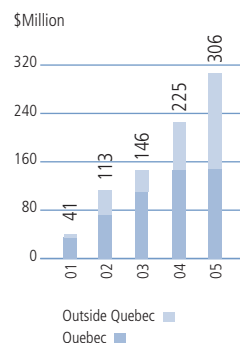
Two factors contributed to the \$410.5 million in new premiums for accumulation products:

- Recurring premiums totalling \$231.4 million, a new high in this regard and a 20% increase over 2004. Recurring premiums are the most important element of our strategy, since they represent the core of our business, our sustainable development. They correspond to regular member contributions, which are collected from in-force group clients;
- New group transfers representing \$179.1 million, up 6% from the previous year and a new record for the sector, excluding the special transfers received in 2002 and 2003.

For the sector to successfully grow its business volume, it needs to do two things: sell new plans and maintain existing plans. In 2005, Group Pensions set new records on both of these fronts.

With respect to new plan sales, we underwrote \$306 million in annualized premiums in 2005, seven times higher than four years ago. This achievement demonstrates the Company's ability to continually recruit new clients year after year.

Accumulation Products New Plan Sales³



One of the sector's strategic objectives is to increase business volume outside Quebec. In keeping with this goal, sales of new plans doubled in this market to reach a high of \$158 million in 2005, accounting for 52% of all new plan sales. This was the first year the Company wrote more business outside Quebec than it did within the province. Ontario did particularly well in 2005, generating 75% of the sector's sales outside Quebec. The Atlantic provinces delivered their share of the Canadian market, while the results for western Canada, an area we are just starting to develop, were in line with expectations.

Net fund entries were once again positive in 2005. As we can see in the table below, net fund entries represented over 50% of gross entries, by far our best performance in the past few years.

Group Pensions Net Fund Entries

(In millions of dollars)	2001	2002	2003	2004	2005
Entries	101.1	218.8	259.0	361.3	410.5
Disbursements	169.9	155.7	169.0	186.3	185.3
Net entries	(68.8)	63.1	90.0	175.0	225.2

Insured Annuities

The insured annuities sector had one of its best years ever, underwriting \$154.3 million in premiums, a 55% increase over 2004. This achievement was primarily due to the very intense activity in the insured annuities market, where we held a market share of 16% in 2005. Our goal in this sector is to maintain our market share while managing risk appropriately.

¹ CAGR: Compound Annual Growth Rate.

² The compound annual growth rate is calculated over a 4-year period.

³ New plans are measured by first-year annualized premiums.

Funds Under Management

Funds under management amounted to \$4.6 billion in 2005, a 14% increase over the previous year.

- Accumulation contracts recorded an overall increase of 22%, with assets reaching \$2.6 billion. About one half of this increase comes from net fund entries and the other half is the result of a solid stock market performance.
- With respect to insured annuities, assets grew by 5% to reach \$2.0 billion. This represents modest growth, but is in line with our expectations given our objective to simply preserve our position in the sector.

Group Pensions Funds Under Management

As at December 31

(In millions of dollars)	2001	2002	2003	2004	2005
Accumulation products ¹	1,048	1,333	1,799	2,120	2,588
Insured annuities	1,640	1,652	1,905	1,936	2,026
Total	2,688	2,985	3,704	4,056	4,614

2005 Achievements

In 2005, Group Pensions had another strong year of achievements.

- We introduced a new investment application known as "MARI" that is fully integrated into our administrative systems, and that automatically rebalances members' investments based on their individual objectives and risk tolerance levels. The primary advantage of MARI is the ability to set up portfolios that are customized to each client's individual situation, a service that is sought after by distributors. This application demonstrates the Company's desire to stand out from its competitors in terms of flexibility, one of the four major attributes it wants to promote.
- Our in-house managed funds had another strong year in 2005, with 80% or more of our segregated fund assets posting above-median gross returns for one, three, five and ten-year terms. This excellent performance will no doubt help us achieve our goal of developing institutional money management, a sector we want to strengthen in 2006.
- We reviewed our communication materials and developed new tools to help plan sponsors carry out the responsibilities set out in the *Guidelines for Capital Accumulation Plans*, a document published by the Joint Forum of Financial Market Regulators. In 2005, distributors and insurers devoted special attention to this new aspect of plan sponsor responsibilities, in an effort to help them implement sound governance practices for their plans.
- We reorganized our administrative services in order to give higher priority to the client, one of the four areas where we want to stand out from our competitors.
- Lastly, we enhanced our process for monitoring external managers and made the communication of our results to plan sponsors more user-friendly, thereby giving them a better tool for selecting and monitoring the investment products they offer their members.

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 developing the accumulation product market in 2006.
 - We will do this by continuing to adhere strictly to the game plan that has been successful for us in the past few years: continuing to promote our products to market intermediaries in order to expand our pool of operations; continuing to improve our products and services so we can offer value-added features that are attractive to market intermediaries, plan sponsors and members; putting forth a concerted effort to network with every actuarial consulting firm in the country; and finally, relying on a communication strategy designed to improve the Company's brand awareness among business clients, particularly outside Quebec, where we have not yet achieved the desired brand recognition.
- With respect to insured annuities, Industrial Alliance is an important player in Canada. 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 our position while seeking to achieve a good balance between our growth and profitability requirements.
- **Canada-wide development** - Our objective is to continue growing our business outside Quebec, particularly for accumulation products, so we can be recognized as a national player in this market, as we are in the insured annuities market. Our results indicate that we are on the right track. New plan sales outside Quebec accounted for 52% of our total sales, 17 percentage points higher than in 2004. Our operations are continuing to expand in all parts of the country.
- **Development of institutional money management** – This is a new component this year, whereby we plan to increase our development and representation efforts in the institutional money management sector. Our game plan will be similar to the one that earned us our success in the full service product market, but tailored to the characteristics of this particular segment.
- **Growth of distribution networks** – In order to increase our pool of business opportunities, 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 our product and service offer** – Lastly, we will continue to enhance our product and service offer, particularly in terms of technology tools, communication tools and innovative investment solutions.

In short, we will stand out from our competitors by focusing on four key elements: accessibility, flexibility, innovation and service. We will seek to ensure that every new initiative we take on reinforces one of these four elements.

¹ Excluding Canadian Medical Association (CMA) business for 2001.

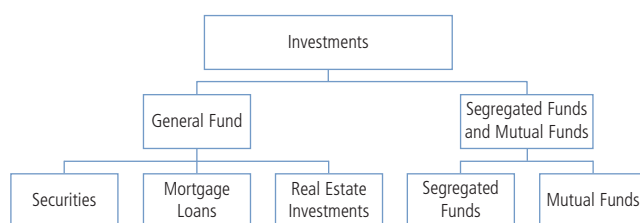
Investments

2005 Highlights

- Assets under management and under administration: \$38.2 billion, up 34%
- General fund: quality of investments remains excellent
 - Net impaired investments at their lowest level in ten years: 0.07% of investments
 - Bond portfolio
 - No defaults in 2005
 - Bonds rated BB and lower: just 0.36%
 - Mortgage loan portfolio
 - Delinquency rate: 0.30% (0.05% for conventional loans)
 - Proportion of delinquent loans that are insured: 93.0%
 - Real estate portfolio: very high occupancy rate: 96.8%
 - Very strict matching: difference in duration of 0.14 years
- Segregated funds and mutual funds: excellent performance of investment funds
 - 82% of segregated fund assets and 70% of mutual fund assets posted a gross one-year return above the median

Description of the Investment Sector

The Company's investment activities are divided into two major sectors: General Fund Investments and Segregated Fund and Mutual Fund Investments.



The General Fund Investments are further divided into three sectors:

- The Securities 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 Loan sector. This sector is in charge of underwriting and managing residential and commercial mortgage loans; and
- The Real Estate Investment sector. This sector is in charge of developing and managing the Company's real estate holdings.

Segregated Fund and Mutual Fund Investments are responsible for the various investment funds offered by the Company. Industrial Alliance distributes a large family of segregated funds. It also offers a varied range of mutual funds through its two mutual fund subsidiaries: Industrial Alliance Fund Management and Clarington Corporation. A team of some fifteen investment professionals at Industrial Alliance Investment Management Inc. is in charge of asset allocation and securities selection for several segregated and mutual funds, in addition to supervising all external fund managers.

All the Company's investment operations are combined under a single authority, the Vice-President and General Manager, Finance and Investment. The fund managers, however, are based in four different cities: Quebec City, Montreal, Toronto and Vancouver. This structure makes optimal use of resources and allows all companies in the Industrial Alliance Group to benefit from one another's knowledge and expertise.

Assets

Assets under management and under administration jumped by almost \$10 billion in 2005, reaching \$38.2 billion as at December 31, 2005, a 34% increase for the year. At year-end, the Clarington acquisition alone boosted assets under management by over \$4 billion. The other main drivers behind asset growth throughout the year were: strong net sales of segregated funds and mutual funds, good premium growth, solid growth of assets under administration in the mutual fund subsidiaries, the acquisition of KingsGate Securities at the beginning of the year and the good stock market performance.

Assets Under Management and Under Administration

(In millions of dollars, unless otherwise indicated)	2001	2002	2003	2004	2005	Variation	
						2005 vs. 2004	5-year CAGR ¹
Assets under management							
General fund	8,886.3	9,289.2	10,307.6	11,030.8	11,972.9	9%	7%
Segregated funds	4,049.6	4,173.5	5,042.2	5,913.6	7,348.8	24%	6%
Mutual funds	—	—	94.1	1,018.5	5,672.7	457%	—
Other	—	—	—	872.0	785.9	(10%)	—
	12,935.9	13,462.7	15,443.9	18,834.9	25,780.3	37%	13%
Assets under administration ²							
	2,192.7	3,298.2	4,129.6	9,641.1	12,390.9	29%	—
Total	15,128.6	16,760.9	19,573.5	28,476.0	38,171.2	34%	22%

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

- General fund assets under management, which totalled \$12.0 billion as at December 31, 2005, up 9% compared to December 31, 2004 (average annual growth of 7% in the last five years);
- Segregated fund assets under management, which totalled \$7.3 billion, an increase of 24% for the year (average annual growth of 6% in the last five years);
- Mutual fund assets under management, which increased from \$1.0 billion as at December 31, 2004 to \$5.7 billion as at December 31, 2005;

¹ CAGR: compound annual growth rate.

² Assets under administration primarily include the assets of the trust company (Industrial Alliance Trust Inc.), third-party assets that are administered through the mutual fund brokerage companies (Investia Financial Services Inc. and FundEX Investments Inc.), the assets of the satellite company MD Life, managed by Industrial Alliance, and the assets of the securities company (Industrial Alliance Securities Inc.).

- Other assets under management, which totalled \$785.9 million as at December 31, 2005, compared with \$872.0 million as at December 31, 2004;
- Assets under administration, which totalled \$12.4 billion as at December 31, 2005, a 29% increase in 2005.

General Fund

Net Investment Income

Net investment income for the general fund totalled \$690.9 million in 2005. However, if we adjust this income to exclude the impact of the \$77.9 million provision (before tax) for Norshield, net investment income totalled \$768.8 million, compared to \$696.9 million for 2004. This represents an increase of \$71.9 million. However, the portion of this income whose risk is transferred to the client (Universal Life policy index accounts), and which therefore does not impact the Company's profit, increased by \$20.6 million. This means that the investment income affecting the Company's net income and matching products other than the Universal Life policy, as well as capital, grew by \$51.3 million in 2005. A good portion of the growth in investment income is explained by the increase in assets and the stock market upturn.

General Fund Net Investment Income

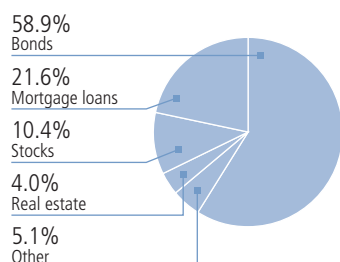
(Millions of dollars)	2004	2005	Variation
Bonds	420.7	444.9	24.2
Mortgage loans	165.4	154.4	(11.0)
Stocks	79.9	44.2	(35.7)
Real estate	31.1	36.1	5.0
Other	14.0	23.9	9.9
Investment expenses	(14.2)	(12.6)	1.6
Net investment income	696.9	690.9	(6.0)
Norshield provision	—	77.9	77.9
Net investment income, adjusted	696.9	768.8	71.9
Products whose risk is transferred to the client ¹	(35.7)	(56.3)	(20.6)
Total	661.2	712.5	51.3

Distribution of General Fund Investments

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.

Investments by Asset Category

As at December 31, 2005



Hence, at the end of 2005, 58.9% of the Company's investments were invested in bonds and 21.6% in mortgage loans, for a total of 80.5% in fixed-income securities. The proportion of fixed-income securities has remained relatively stable over the last few years.

Overall Quality of Investments

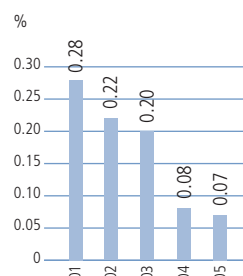
The overall quality of investments remains excellent, and most quality indices either remained stable or improved further in 2005. However, there are two items concerning the quality of investments in 2005 that are worthy of note.

In the first quarter, the Company sold its Teleglobe bonds, which originally had a book value of \$27.9 million and were fully provisioned. The disposition of these bonds reduced gross impaired investments and provisions. Moreover, in the third quarter, the Company recorded a \$77.9 million provision, before tax, to cover the investments previously held by its clients in the funds managed by Norshield. This provision increased gross impaired investments and provisions.

Hence, gross impaired investments (excluding insured loans) increased from \$47.6 million as at December 31, 2004 to \$96.8 million as at December 31, 2005. On the other hand, for the same period provisions for losses increased from \$39.1 million to \$89.2 million, such that net impaired investments decreased slightly, from \$8.5 million as at December 31, 2004 to \$7.6 million as at December 31, 2005. The quality of investments has therefore been maintained, since net impaired investments represented just 0.07% of total investments as at December 31, 2005, compared with 0.08% as at December 31, 2004. This is one of the lowest rates ever achieved by the Company. Note that 92.1% of gross impaired investments were provisioned as at December 31, 2005.

Net Impaired Investments as a Percentage of Total Investments

As at December 31



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.

Overall Investment Quality Indices

As at December 31

(In millions of dollars, unless otherwise indicated)	2001	2002	2003	2004	2005
Gross impaired investments (excluding insured loans)	39.8	60.4	60.5	47.6	96.8
Provisions for losses	(15.7)	(41.1)	(40.7)	(39.1)	(89.2)
Net impaired investments (excluding insured loans)	24.1	19.3	19.8	8.5	7.6
Provisions as a % of gross impaired investments	39.1%	68.0%	67.3%	82.0%	92.1%

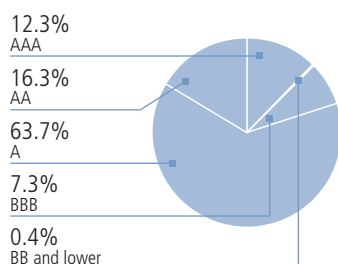
Bond Portfolio

In accordance with the rules defined in the investment policies, the Company invests in bonds whose credit rating is BBB low or higher at the time of acquisition. 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 in-house method to evaluate the quality of the bonds in question.

¹ Flow through to Universal Life policy index accounts.

Bonds by Credit Rating

As at December 31, 2005



No bonds defaulted during the year and the bond portfolio continues to be of very good quality. The delinquency rate therefore remained unchanged, accounting for 0.02% of the portfolio. As at December 31, 2005, 92.3% of the bond portfolio was made up of bonds rated A or higher. Bonds rated BB and lower (0.36% of the portfolio) represented just \$23.6 million of a \$6.6 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 have the same level of liquidity.

Bond Portfolio

As at December 31

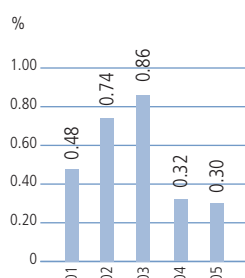
(In percent, unless otherwise indicated)	2001	2002	2003	2004	2005
Book value of the portfolio (\$Million)	4,193.2	4,686.4	5,527.9	6,074.5	6,619.6
Market value/ book value of the portfolio	111.9	115.7	115.2	116.0	120.8
Distribution by category of issuer					
Governments ¹	52.4	55.1	59.2	64.5	60.4
Municipalities	1.2	2.5	1.8	1.7	1.6
Corporations—public issues	32.9	28.2	26.0	22.4	25.1
Corporations—private placements	13.5	14.2	13.0	11.4	12.9
Total	100.0	100.0	100.0	100.0	100.0
Delinquency rate	0.03	0.03	0.03	0.02	0.02

Mortgage Loan Portfolio

The quality of the mortgage loan portfolio remains very good. The delinquency rate of this portfolio remained practically unchanged in 2005, accounting for 0.30% of the portfolio compared to 0.32% as at December 31, 2004 (0.86% as at December 31, 2003). Mortgage loans in arrears totalled \$7.3 million, 89% of which is attributable to two loans. These loans are insured by the Canada Mortgage and Housing Corporation (CMHC). The Company is not expecting any losses on the loans in arrears.

Mortgage Loan Delinquency Rate

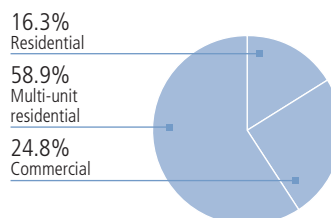
As at December 31



The delinquency rate figure includes both insured and uninsured loans. Insured loans account for 93.0% of the amounts in arrears (81.0% in 2004). For uninsured loans, the amount is limited to 75% of the value of the property when the loan is granted.

Mortgage Loans by Type of Property

As at December 31, 2005



Virtually all mortgage loans are secured by first mortgages. Furthermore, as at December 31, 2005, 55.6% of the portfolio was made up of insured loans, and 75.2% of the loans were secured by single-family or multi-unit residential properties.

Mortgage Loan Portfolio

As at December 31

(In percent, unless otherwise indicated)	2001	2002	2003	2004	2005
Book value of the portfolio (\$Million)	2,660.4	2,526.5	2,490.4	2,491.8	2,420.8
Market value/ book value of the portfolio	103.4	103.5	103.2	102.8	102.0
Distribution by type of loan					
Insured loans	40.9	45.3	48.6	52.8	55.6
Conventional loans	59.1	54.7	51.4	47.2	44.4
Total	100.0	100.0	100.0	100.0	100.0
Delinquency rate					
Insured loans	0.27	0.80	0.75	0.50	0.50
Conventional loans	0.62	0.69	0.97	0.13	0.05
Total	0.48	0.74	0.86	0.32	0.30
Proportion of delinquent loans that are insured	23.3	49.0	42.2	81.0	93.0

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.

Note that stock market fluctuations have very little direct impact on the Company's net income. In fact, 77.3% of the stock and market indices portfolio, which totalled \$1,162.4 million at the end of 2005, was composed of assets that are used for matching the Company's very long-term commitments and Universal Life policies. Any fluctuation in the value of these assets has virtually no impact on the Company's income. Furthermore, 9.5% of the portfolio is made up of preferred shares backing capital.

¹ Government issuers and those with an equivalent direct or indirect guarantee, excluding municipal issuers.

Stock Portfolio

As at December 31

(In percent, unless otherwise indicated)	2001	2002	2003	2004	2005
Book value of the portfolio (\$Million)	703.2	720.1	930.3	1,081.1	1,162.4
Market value/book value of the portfolio	98.2	96.1	102.9	104.6	108.0
Distribution by category of stock					
Common shares	7.4	6.1	4.1	4.1	4.9
Preferred shares	29.8	32.4	24.8	21.6	12.8
Market indices	19.3	15.3	11.1	12.0	18.2
Investment fund units	43.5	46.2	60.0	62.3	64.1
Total	100.0	100.0	100.0	100.0	100.0
Proportion of the portfolio matching very-long-term commitments and Universal Life policies					
	48.4	60.1	66.4	69.9	77.3

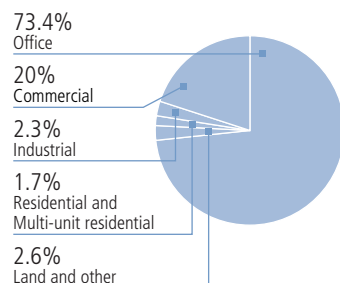
Real Estate Portfolio

As at December 31, 2005, the book value of real estate totalled \$446.3 million, which represented 4.0% of total investments. According to Company policy, the targeted real estate portfolio is 5% of the Company's total investments.

The occupancy rate of the Company's real estate portfolio, which was already excellent, improved even further during the year, increasing from 95.2% as at December 31, 2004 to 96.8% as at December 31, 2005. 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 Portfolio by Category of Property

As at December 31, 2005



The market value/book value ratio of the real estate portfolio is at its highest level in five years, reaching 114.2% as at December 31, 2005. This increase comes from a \$27.0 million increase in the market value of the real estate

portfolio. The buildings are re-appraised every three years. This year, about one third of the Company's buildings were re-appraised, leading to an increase of about 20% in the market value of these buildings.

Real Estate Portfolio

As at December 31

(In percent, unless otherwise indicated)	2001	2002	2003	2004	2005
Book value of the portfolio (\$Million)	424.9	436.0	425.7	444.5	446.3
Market value/book value of the portfolio	106.3	104.5	104.9	108.6	114.2
Occupancy rate	96.3	92.1	93.9	95.2	96.8

Other Investments

The "Other Investments" category (5.1% of the investment portfolio) is made up of cash and cash equivalents, policy loans (most 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.

As at December 31, 2005, the spread between the duration of Company assets and liabilities was 0.14 years, well within the ± 0.25 -year tolerance level stipulated by the Company's investment policies. This figure excludes the Universal Life policy account, which is matched so as to strictly reproduce the variations in the market value of the liabilities. It also excludes the very-long-term commitments portion of the individual insurance and annuity products for which we favour an active management strategy aimed at maximizing the return of a high-quality investment portfolio.

Policy Liabilities Matched and Unmatched to Assets

As at December 31, 2005

	In millions of dollars	As a percent
Matched liabilities		
On a cash flow basis	5,216	58%
Universal Life policy account	1,047	11%
Sub-total	6,263	69%
Unmatched liabilities	2,794	31%
Total	9,057	100%

Derivative Products (Swaps)

The Company holds swap contracts that are calculated according to a notional amount of \$554.2 million as at December 31, 2005 (\$438.1 million as at December 31, 2004). 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 the Company by the various counterparties, was \$10.0 million as at December 31, 2005 (\$11.1 million as at December 31, 2004). 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 \$23.6 million as at December 31, 2005 (\$18.6 million as at December 31, 2004). All counterparties with whom the Company has signed such agreements are high quality financial institutions.

Segregated Funds and Mutual Funds

Segregated Fund and Mutual Fund Assets

The Company's segregated fund assets totalled \$7.3 billion as at December 31, 2005. These assets were made up of investment funds (\$6.9 billion) and separate and other funds (\$0.5 billion). The Company also manages additional assets of \$5.7 billion through its mutual fund subsidiaries, Industrial Alliance Fund Management (\$1.3 billion) and Clarington Corporation, which was acquired at the end of 2005 (\$4.4 billion). In total, Industrial Alliance was managing over \$13 billion in segregated fund and mutual fund assets at the end of 2005. The following section discusses both types of funds.

Segregated Fund and Mutual Fund Assets
As at December 31, 2005

	In millions of dollars
Segregated funds	
Investment funds	6,892.6
Separate and other funds	456.2
Sub-total	7,348.8
Mutual funds	
Industrial Alliance Fund Management	1,280.8
Clarington	4,391.9
Sub-total	5,672.7
Total	13,021.5

Industrial Alliance offers a wide variety of segregated funds designed for its individual and group clients. As at December 31, 2005, Individual Wealth Management had 46 funds available for sale, while Group Pensions had 50. Even though certain funds are offered to both Individual Wealth Management and Group Pension clients, given the specific needs of these different clients, many funds are specific to each sector.

Few changes were made to the Individual Wealth Management and Group Pension investment fund offerings in 2005. The changes made in previous years enhanced the quality and depth of the service offering. Today, the two fund families offer excellent diversification in terms of asset class, management style and geographic region. The consolidation efforts begun in past years will continue in 2006, primarily among the fund families that are no longer being sold by our insurance subsidiaries.

In terms of mutual funds, several activities took place in 2005. During the year, the Company merged the two mutual fund subsidiaries acquired in the previous two years, Industrial Alliance Mutual Funds Inc. (formerly the Co-operators mutual fund company) and Industrial Alliance Fund Management Inc. (formerly BLC-Edmond de Rothschild Asset Management). As part of this merger, the funds offered by the two companies have also been combined into a single family, thus consolidating activities and reducing the total number of mutual funds from 40 to 25. The family of mutual funds gives clients access to very high quality managers as well as a very diversified range of mandates. At the end of 2005, Industrial Alliance also acquired Clarington Corporation, a large Canadian mutual fund company. As at December 31, 2005, Clarington Corporation was managing \$4.4 billion in assets, divided among 22 mutual funds.

Except for the funds of the recently acquired Clarington Corporation, taking into account all Company funds, including those that are still being sold and those that have been withdrawn but are still active, our in-house managers were responsible for managing 63 funds as at December 31, 2005, representing 73% of investment fund assets under management. The expertise of our in-house team is concentrated on fixed-income securities and Canadian equities. Our external managers were responsible for managing a total of 80 funds, representing 27% of investment fund assets under management. Industrial Alliance has strategic alliances with close to 25 external managers.

Investment Fund Performance

In an environment of good Canadian stock market returns for the third consecutive year and acceptable Canadian bond market returns, the performance of Industrial Alliance segregated funds was once again excellent in 2005.

The relative performance of our segregated funds continues to be very good. During the year, the percentage of assets above the median, over a one-year period, increased from 72% as at December 31, 2004 to 82% as at December 31, 2005. The medium term performance (three and five years) remained very good, while the proportion of assets above the median over a 10-year period was 81%. Our team of in-house managers made a strong contribution to these excellent results.

Note that nine of the Company's ten largest segregated funds in terms of assets had an above-median performance over a one-year period.

Gross Relative Performance of Investment Funds

Segregated Funds (Excluding Separate Funds)

(In percent)	1 year	3 years	5 years	10 years
1 st quartile	25	34	64	1
2 nd quartile	57	46	24	80
Above the median – As at December 31, 2005	82	80	88	81
Above the median – As at December 31, 2004	72	82	89	60

Our team of in-house managers started to assume the responsibility for the mutual funds of Industrial Alliance Fund Management Inc. at the beginning of the year. This change of manager is reflected in the overall performance of the funds, with the proportion of assets above the median over a one-year period increasing to 70%. This is a strong improvement over the situation that prevailed one year ago. Over the three, five and ten-year periods, the proportion of assets above the median reached 71%, 61% and 63% respectively, which also represents an improvement over the previous year's figures.

Note that the performance of the five largest mutual funds is above the median over a one-year period.

Gross Relative Performance of Investment Funds

Mutual Funds (Excluding Clarington Funds)

(In percent)	1 year	3 years	5 years	10 years
1 st quartile	10	12	43	32
2 nd quartile	60	59	18	31
Above the median – As at December 31, 2005	70	71	61	63

The return on our investment funds and the detailed financial information associated with these funds are presented in the investment funds' annual financial reports prepared jointly by the Industrial Alliance Group's two life and health insurance companies. The returns of the mutual funds offered by our two mutual fund companies, Industrial Alliance Fund Management and Clarington Corporation, can also be found in their respective financial reports.

In terms of the outlook for 2006, our recent acquisition of Clarington Corporation will provide numerous opportunities to further improve our mutual fund offering. It will also lead to a number of synergies by allowing us to combine the portfolio management expertise of our in-house team with Clarington's excellent sales force.

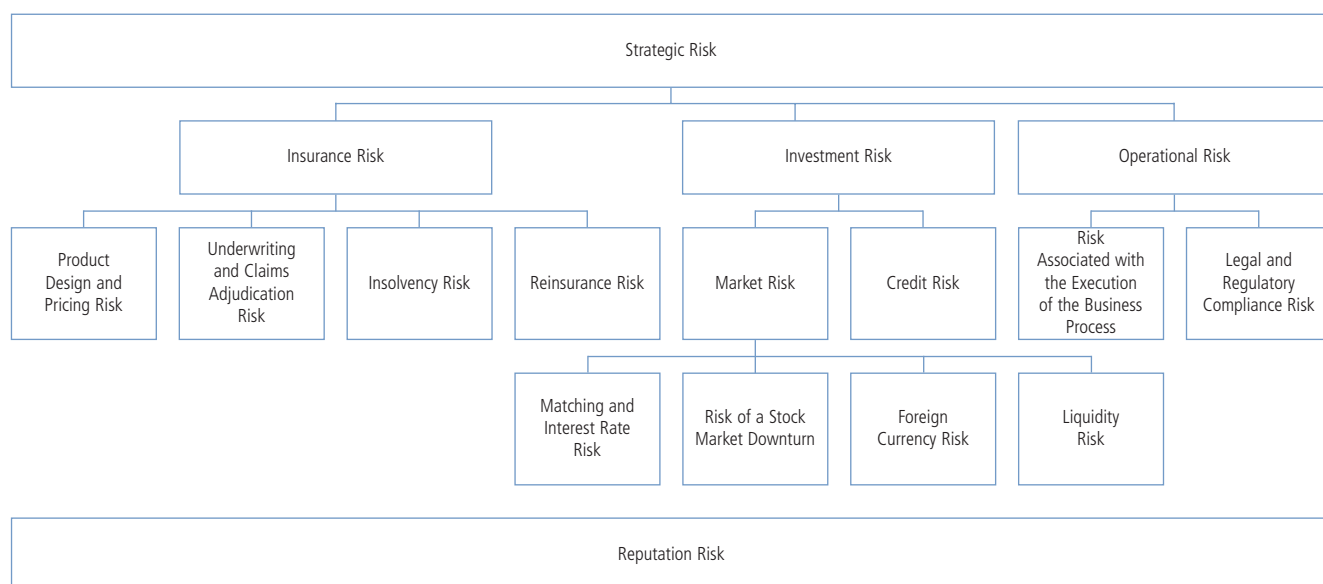
Risk Management

In the course of its operations, Industrial Alliance needs to manage a variety of risks in order to achieve profitable growth. The Company strives to be as effective as possible in managing these risks, seeking to obtain a balance between optimizing value for the shareholders and meeting the needs and requirements of its policyholders and regulatory authorities. The Company demonstrates prudence in implementing its strategies and business decisions in order to preserve its reputation and the Company's value.

Risk management is an important part of any set of policies and procedures pertaining to the standards of sound business and financial practices. These policies and procedures are approved by the Board of Directors, and enforced by those in charge of the various lines of business.

Risk Categories

The table below illustrates all of the risks facing the Company. Strategic risk is the risk arising from inadequate planning or the Company's failure to effectively adapt to the business environment. This type of risk encompasses the various risks the Company is exposed to through the implementation of its business strategy, including insurance risk, investment risk and operational risk. Reputation risk is a component of every risk the Company is exposed to, and arises out of every decision the Company makes.



Risk Management Principles and Responsibilities

Effective risk management rests on identifying, understanding and communicating all risks the Company is exposed to in the course of its operations. In order to make sound, enlightened decisions, both strategically and operationally, management must have access to the best information possible. Either directly or through its committees, the Board of Directors ensures that Company management has put appropriate risk management measures in place mainly through its Planning or Management Committee.

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 contained in 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.

Management endeavours to create an environment conducive to effective risk management. It also ensures that managers carefully assess the material

risks to which the Company is exposed, and that they act with prudence and discipline within the stipulated limits for risk tolerance.

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

The 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 and capital adequacy, product pricing, investments and asset and liability matching.

A summary of the risks the Company is exposed to and the process for managing them is outlined below.

Insurance Risk

Insurance risk is subdivided into four categories: product design and pricing risk, underwriting and claims adjudication risk, insolvency risk and reinsurance risk.

Product Design and Pricing Risk

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

For certain types of contracts, all or part of this risk may be shared with or transferred to the policyholder through a dividends and experience refunds 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.

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 *Reinsurance Risk*). 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.

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 2005 to 2010 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.

Reinsurance Risk

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

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.

Investment risk is sub-divided into two main categories: market risk and credit risk.

Market Risk

Market risk includes four types of risk: matching and interest rate risk, risk of a stock market downturn, foreign currency risk, and liquidity risk.

Matching and Interest Rate Risk – Matching and 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 that is part of the Company's investment policy, and which is updated periodically. To apply this policy, liabilities are divided into three separate groups, two of which are subject to very strict matching.

Policy Liabilities Matched and Unmatched to Assets

As at December 31, 2005

	In millions of dollars	In percent
Matched liabilities		
On a cash flow basis	5,216	58%
Universal Life policy account	1,047	11%
Sub-total	6,263	69%
Unmatched liabilities	2,794	31%
Total	9,057	100%

1. Liabilities Matched on a Cash Flow Basis

This group includes all policy liabilities, with the exception of Universal Life policy liabilities and unmatched liabilities. For this group, the policy's primary objective 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 a series of given scenarios to evaluate the sensitivity of future margins incorporated into the valuations to different interest rate fluctuation scenarios. The same policy also imposes limits as to the sensitivity level of the matching situation using more than 500 stochastic scenarios.

For this group, the impact on net income of a decrease or increase in interest rates would be negligible.

2. Assets Matched to the Universal Life Policy Account

This group includes all Universal Life policy liabilities. These liabilities are matched in such a way as to strictly reproduce any changes in market value.

For this group, the impact on net income of a decrease or increase in interest rates would be negligible.

3. Unmatched Liabilities

This group mainly includes individual insurance products with very long-term commitments. For these liabilities, since an immunization strategy cannot be applied due to the lack of available fixed-income securities for these kinds of maturities, the Company advocates an investment strategy that strives to maximize after-tax return.

The investments tied to these liabilities are primarily long-term fixed-income securities, investments in equity securities (common and preferred shares, market indexes and investment fund units), and real estate. The asset class allocation aims to achieve the best return at maturity, taking into account capital requirements, expectations regarding the interest rate structure and the performance of the stock markets, while keeping the portfolio well diversified and respecting the investment strategy.

For this group, a decrease in interest rates could have an adverse impact on annual net income, as described below.

- Firstly, if interest rates were to decrease, the amounts reinvested during the current year would generate lower investment income for the total duration of the investment. In this regard, the Company believes that a 1% decrease in interest rates for one year would have an adverse impact on annual net income of \$14.9 million. This amount does not take into account any compensatory measures to alleviate the impact of the interest rate decrease. A 1% increase in interest rates for one year would have a similar impact to a 1% decrease, but with the opposite effect.

- Secondly, in determining the policy liabilities, the Company uses assumptions that are established based on the appointed actuary's best estimates regarding certain assumptions, including future interest rate assumptions. In addition, the interest rate assumption used for reinvestment purposes is reviewed periodically and updated to adequately reflect recent trends. If interest rates were to remain at a lower level for more than one year, the policy liabilities would be recalculated to take into account this decrease, and this change would be part of the annual review carried out by the appointed actuary. Also, in the event that this decrease is deemed permanent, the policy liabilities could take into account that this rate decrease will continue in the future.

Since insurance operations are backed by an investment portfolio made up of fixed-income and variable-income securities, it is difficult to isolate the interest rate risk associated with these operations from the volatility of the variable-yield investments.

Finally, in the event of a lasting decrease in interest rates, the Company could reconsider the investment allocation for each asset class backing the very long-term commitments.

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 mutual funds, 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 the Company's general fund actuarial liabilities.

The Company believes that a 10% decrease in the stock markets would decrease annual net income by \$17.8 million.

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

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.

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.

Operational Risk

Operational risk includes risk associated with the execution of the business process, and legal and regulatory compliance risk.

Risk Associated with the Execution of the Business Process

The risk associated with the execution of the business process is the risk of loss the Company is exposed to should its operations or those of its subsidiaries be disrupted due to external events, human error, or the inadequacy or failure of processes, procedures or controls. This risk can also result from fraud or natural disaster, or from the fiduciary risk the Company is exposed to, whether directly or as a result of adverse effects on its reputation, in the event that the Company or one of its subsidiaries should breach its duties or obligations in the course of holding, administering, managing or investing assets on behalf of other persons, or in the course of providing investment advice to other persons.

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.

The Company sustained a loss in 2005 after substituting for its clients when Norshield announced it was having financial difficulties. Following the Norshield affair, the Company developed stricter standards for selecting fund managers, with a stronger emphasis on reputation and transparent management regarding the safekeeping of securities held in trust.

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 set up 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.

Legal and Regulatory Compliance Risk

Legal and regulatory 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 receives 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.

Corporate Social Responsibility

2005 Highlights

- Number of employees: 2,746
- Adherence to the principles of the Imagine Program, which invites corporations to donate 1% of their pre-tax income
- Mentions received
 - 15th among over 200 public companies with respect to corporate governance (*The Globe and Mail*)
 - 3rd in the "Insurance and Financial Services" category with respect to corporate social responsibility (*The Globe and Mail Report on Business*)
 - 24th among the top 50 companies with respect to corporate social responsibility (Corporate Knights)
 - First company in the insurance and financial services sector to receive the *ICI ON RECYCLE!* performance certificate from RECYC-QUÉBEC

Across the country, Industrial Alliance Group companies share the same sense of commitment and responsibility towards their employees and the communities in which they continue to grow.

The following pages present 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 two life companies, Industrial Alliance (the parent company) and Industrial Alliance *Pacific*, a general insurance company, Industrial Alliance Auto and Home Insurance, as well as various other companies (see the Company organization chart on page 16).

Before we begin to enumerate the Industrial Alliance Group's main achievements in 2005 in terms of corporate social responsibility, we wish to mention that in October 2005, *The Globe and Mail* placed Industrial Alliance 15th among over 200 public companies in a ranking with respect to corporate governance. The Company obtained a score of 92 on 100.

We also wish to underline that an annual study on corporate social responsibility conducted for *Report on Business*, a publication of *The Globe and Mail*, again ranked Industrial Alliance one of the top three companies in 2005 in the "Insurance and Financial Services" category.

Finally, Corporate Knights, another publication that also surveys corporate social responsibility, ranked Industrial Alliance 24th among the top 50 corporate Canadian citizens of 2005.

Human Resources

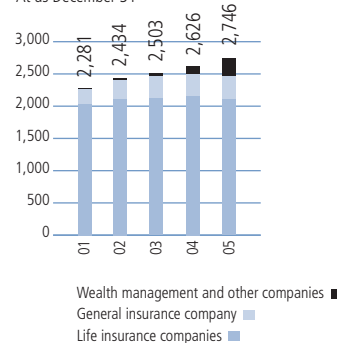
Industrial Alliance Group companies are committed to providing their employees with a workplace environment that allows each person to grow as an individual while also being able to fulfil their professional aspirations. Each Group company has therefore implemented several programs and policies over 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 2005, Industrial Alliance Group employees numbered 2,746, which is 120 more than in 2004. The integration of National Life brought

Number of Employees

At as December 31



about a decrease in the number of life company employees, but this decrease was largely compensated for with the acquisition of Clarington Corporation at the very end of 2005 and workforce growth resulting from ongoing business development in the wealth management and general insurance sectors. Since 2001, the number of employees working for the Industrial Alliance Group has grown by 465 (or 20%); an increase that bears witness to the Group's sustained growth 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 in recognized educational institutions, are offered in all areas of the insurance sector as well as 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 payroll in training each calendar year. 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 a Canada-wide job posting system that lists various Company positions as they become available and for which all employees are eligible to apply.

Industrial Alliance also encourages employees to come up with ways to improve their work methods through an incentive and recognition program.

Employment Equity and Occupational Health and Safety

All Industrial Alliance Group companies rigorously apply both 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.

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

In the area of 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 manager.

All Industrial Alliance Group life company employees are also entitled to receive a bonus according to the Group's financial results. This bonus is based on the shareholder net income registered by all Group companies (Industrial Alliance's consolidated earnings).

Share Purchase Plan

In order to foster a sense of belonging to the organization, the Industrial Alliance Board of Directors set up a Share Purchase Plan in 2001 open to all Industrial Alliance Group life company employees. The plan allows employees to purchase Industrial Alliance shares up to an annual limit of 5% of their yearly salary, without exceeding \$1,500 per year, which is matched by an employer contribution equivalent to 50% of the invested amount. At December 31, 2005, 829 employees were registered in the plan, which represents a 41% participation rate.

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

Industrial Alliance Group companies adhere to the principles of the Imagine Program, which invites companies to donate 1% of their pre-tax profits to organizations that play a key role in helping their communities. In 2005, 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 Chair in Prostate Cancer at the University of Montreal's Faculty of Medicine, the Quebec Firefighters Foundation for Major Burn Victims, the Montreal Heart Institute, the Sainte-Justine Hospital Foundation and the Vancouver General Hospital for research programs on depression and prostate cancer. The majority of these donations are made under a periodic donation program and therefore repeated each year for a period ranging from three to ten years.

In Ontario, Industrial Alliance lends its support to several organizations in the healthcare sector through its Toronto Service Centre. These organizations include the Toronto Rehab Foundation, which helps individuals stricken by illness or disabling injuries to rebuild their lives with hope and determination. It also supports the Easter Seal Society Telethon, which comes to the aid of children with physical disabilities.

In the education sector, Industrial Alliance continued to finance the Laval University Foundation. It equally continued to support École Polytechnique and École des Hautes Études Commerciales, both of which are affiliated with the University of Montreal.

In the social services sector, all Industrial Alliance Group employees take part in the United Way's Canadian campaign. In 2005, Industrial Alliance raised more than \$365,000 across the country as part of this campaign. In addition to the 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.

In 2005, Industrial Alliance also sponsored an elementary school located in one of Quebec City's core neighbourhoods through a partnership with the Breakfast Club. The Company's contribution will allow some 80 children to enjoy a daily breakfast. Industrial Alliance also upheld its support to the Moncton Youth Residences in New Brunswick.

Industrial Alliance once again took part in the Meals on Wheels Program organized by Mid-Toronto Community Services in which different teams composed of twenty-five volunteer employees from the Toronto Service Centre delivered meals to senior citizens and needy adults every week. Industrial Alliance also maintained its support to the Salvation Army and the Ontario Trillium Foundation, which provides financial support to the province's charity and non-profit organizations.

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.

The end of 2004 and early 2005 was also marked by the catastrophic tsunami that hit Southeast Asia and a large number of Industrial Alliance Group employees wanted to express their solidarity towards those who were impacted by this disaster. The Industrial Alliance Group therefore made a significant donation through Industrial Alliance *Pacific* to support aid agencies coming to the assistance of victims.

Sponsorships

Through its 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.

In British Columbia, Industrial Alliance *Pacific* provided generous financial support to the Stanley Theatre Company and the Arts Club Theatre Company. Its contribution was one of the largest of its kind in recent years to be made by a company to an organization on the Vancouver arts scene. Industrial Alliance *Pacific* also contributed to the success of Festival Vancouver, which features the talents of professional musicians from around the world.

In Alberta, Industrial Alliance *Pacific*, which conducts a large part of its activities in the Prairies, provided financial support to the Calgary Opera, which has enriched the cultural landscape of Western Canada for over 33 years.

In Ontario, Industrial Alliance was the title sponsor of the 11th 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 by the foundation in 2005.

On the arts 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.

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 accordance with its *Environmental Policy*, Industrial Alliance wishes to achieve a balance between the changing ecological and economical factors that are necessary to the Company's growth. In addition, Industrial Alliance is committed to applying exemplary environmental practices, notably with regards to purchasing decisions and resource conservation, by reducing waste and the reuse and recycling of waste materials.

In doing so, Industrial Alliance's *Environmental Policy* aims 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 the recuperation and recycling of the supplies it uses (various types of paper and cardboard, aluminium, printer cartridges, computer hardware, etc.).

In 2005, Industrial Alliance became the first company in Quebec operating in the insurance and financial services sector to receive the *ICI ON RECYCLE!* performance certificate. This certificate is awarded to industries, companies and institutions (or ICIs, with each letter representing each group) that have satisfied the recovery criteria established by RECYC-QUÉBEC, the company that issues the certificate. As the first and only company in the Quebec City metropolitan area to receive such an honour and as a result of the head office recycling program, Industrial Alliance is now part of a group of 32 other Quebec ICIs that have received the certificate to date.

Thanks to its recycling program, the Industrial Alliance head office achieved a recovery rate of 76% of its waste materials.

Within a more global context, given Industrial Alliance's concern for the physical and human environment in which it continues to evolve, the Company is preparing to publish a report on sustainable development. This document, which will be revised periodically, 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 thriving and stimulating environment for future generations.

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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:

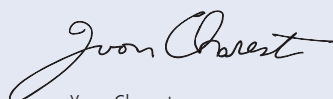
- Review the financial statements and recommend them for approval by the Board of Directors;
- Review the systems of internal control and security;
- Recommend the appointment of the external auditors and their fee arrangements to the Board of Directors;
- Review other accounting, financial, and security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

The Audit 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 audit of these statements in accordance with Canadian generally accepted auditing standards.

On behalf of Management,



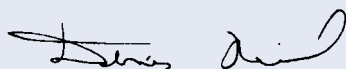
Yvon Charest
President and Chief Executive Officer
Québec, February 8, 2006

Appointed Actuary's Report

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

I have valued the policy liabilities of **Industrial Alliance Insurance and Financial Services Inc.** for its consolidated balance sheets as at December 31, 2005 and 2004 and the variation in the policy liabilities in its consolidated statements of income for the years then ended. These valuations were carried out in accordance with accepted actuarial practice, using appropriate assumptions and methods.

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



Denis Ricard
Fellow of the Canadian Institute of Actuaries
Québec, February 3, 2006

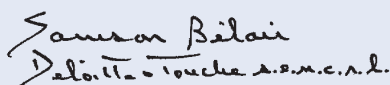
Auditors' Report

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, 2005 and 2004 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, 2005 and 2004 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.


Deloitte & Touche s.e.n.c.r.l.

Samson Bélair / Deloitte & Touche s.e.n.c.r.l.
Chartered Accountants
Québec, February 3, 2006

Consolidated Income Statements

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

	2005	2004
	\$	\$
Revenues		
Premiums (note 27)	3,171.1	2,852.4
Net investment income (note 8)	690.9	696.9
Fees and other revenues	167.4	128.9
	4,029.4	3,678.2
Policy benefits and expenses		
Change in provisions for future policy benefits	544.8	517.4
Payments to policyholders and beneficiaries	1,411.7	1,277.9
Net transfer to segregated funds	1,116.1	929.7
Dividends, experience rating refunds and interest on amounts on deposit	32.4	44.9
Commissions	388.6	350.6
Premium and other taxes	51.7	46.8
General expenses (notes 7, 9 and 14)	273.1	257.8
Net financing expenses (note 18)	17.0	16.3
Minority interest (note 19)	—	(0.1)
	3,835.4	3,441.3
Income before income taxes	194.0	236.9
Income taxes (notes 5 and 10)	(59.4)	(77.7)
Net income	134.6	159.2
Net income attributable to participating policyholders	2.4	4.1
Net income attributable to shareholders	132.2	155.1
Earnings per share (note 21)		
basic (in dollars)	1.66	1.96
diluted (in dollars)	1.65	1.95

Consolidated Balance Sheets

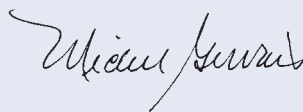
As at December 31 (in millions of dollars)

	2005	2004
	\$	\$
Assets		
Invested assets (note 11)		
Bonds	6,619.6	6,074.5
Mortgages	2,420.8	2,491.8
Stocks	1,162.4	1,081.1
Real estate	446.3	444.5
Policy loans	182.6	162.7
Short-term investments	2.6	83.0
Cash and cash equivalents	305.7	214.3
Other invested assets	86.9	37.7
	11,226.9	10,589.6
Goodwill (note 12)	286.7	125.7
Intangible assets (note 13)	67.5	—
Other assets (note 14)	391.8	315.5
	746.0	441.2
Total general fund assets	11,972.9	11,030.8
Segregated funds net assets	7,348.8	5,913.6
Liabilities		
Policy liabilities (note 15)		
Provisions for future policy benefits	8,701.0	8,157.7
Provisions for dividends to policyholders and experience rating refunds	47.1	50.2
Benefits payable and provision for unreported claims	144.7	121.7
Policyholders' amounts on deposit	164.4	164.1
	9,057.2	8,493.7
Other liabilities (note 16)	717.7	625.6
Deferred net realized gains (note 17)	444.1	380.7
Subordinated debentures (note 18)	373.0	150.0
Other debts (note 18)	—	150.0
Participating policyholders' account	19.7	17.3
Equity		
Share capital (note 20)	510.6	458.1
Contributed surplus	12.3	9.5
Retained earnings	845.4	751.7
Currency translation account	(7.1)	(5.8)
	1,361.2	1,213.5
Total general fund liabilities and equity	11,972.9	11,030.8
Segregated funds liabilities	7,348.8	5,913.6

On behalf of the Board,



Yvon Charest, Director



Michel Gervais, Director

Consolidated Participating Policyholders' Account

Years ended December 31 (in millions of dollars)	2005 \$	2004 \$ (restated) (note 4)
Balance at beginning	17.3	64.8
Restatement of the transfer amount of the participating policyholders' account (note 4)	—	(51.6)
Balance restated at beginning	17.3	13.2
Income for the year	6.1	8.3
Dividends	(3.3)	(3.6)
Transfer to the shareholders' account	(0.4)	(0.6)
Net income attributable to participating policyholders	2.4	4.1
Balance at end	19.7	17.3

Consolidated Contributed Surplus

Years ended December 31 (in millions of dollars)	2005 \$	2004 \$
Balance at beginning	9.5	6.5
Current year contribution for the stock option plan (note 22)	3.3	3.2
Stock options exercised (note 22)	(0.5)	(0.2)
Balance at end	12.3	9.5

Consolidated Shareholders' Retained Earnings

Years ended December 31 (in millions of dollars)	2005 \$	2004 \$ (restated) (note 4)
Balance at beginning	751.7	575.9
Restatement of the transfer amount of the participating policyholders' account (note 4)	—	51.6
Balance restated at beginning	751.7	627.5
Impact of the non-consolidation of the Industrial Alliance Trust Securities (note 3)	1.3	—
Net income attributable to shareholders	132.2	155.1
Cancellation of common shares issued at demutualization (note 20)	—	1.7
Dividends	(39.8)	(32.6)
Balance at end	845.4	751.7

Consolidated Cash Flows Statements

Years ended December 31 (in millions of dollars)

	2005 \$	2004 \$ (restated) (note 4)
Cash flows from operating activities		
Net income	134.6	159.2
Items not affecting cash and cash equivalents:		
Change in provision for future policy benefits	554.5	517.4
Share of results of significantly influenced entity	(2.0)	(1.3)
Amortization of realized and unrealized (gains) losses	(158.9)	(74.9)
Amortization of premiums and discounts	(173.6)	(150.9)
Future income taxes	39.0	50.4
Stock option plan	3.3	3.2
Provision on invested assets	76.3	(0.8)
Other	8.7	22.4
	481.9	524.7
Other changes in other assets and liabilities	7.6	62.1
Cash flows from operating activities	489.5	586.8
Cash flows from investing activities		
Sales, maturities and repayments of the following items:		
Bonds	1,542.7	1,504.1
Mortgages	551.4	681.9
Stocks	683.2	291.5
Real estate	2.0	18.0
Policy loans	69.3	67.3
Other invested assets	178.1	145.9
	3,026.7	2,708.7
Purchases of the following items:		
Bonds	(1,831.0)	(1,851.9)
Mortgages	(486.9)	(692.5)
Stocks	(739.8)	(386.2)
Real estate	(0.5)	(31.7)
Policy loans	(86.1)	(74.3)
Other invested assets	(252.3)	(310.7)
Acquisition of cash and short-term investments (note 6)	20.1	4.1
	(3,376.5)	(3,343.2)
Cash flows from investing activities	(349.8)	(634.5)
Cash flows from financing activities		
Issue of common shares	3.6	2.1
Redemption of debentures	—	(135.0)
Issue of debenture	—	150.0
Dividends paid on preferred shares	—	(0.1)
Dividends paid on common shares	(39.8)	(32.5)
Increase (decrease) in mortgage debts	(12.1)	(1.7)
Cash flows from financing activities	(48.3)	(17.2)
Increase (decrease) in cash and cash equivalents	91.4	(64.9)
Cash and cash equivalents at beginning	214.3	279.2
Cash and cash equivalents at end	305.7	214.3
Supplementary information:		
Interest paid	21.8	23.0
Income taxes paid, net of refunds	39.1	36.0

Consolidated Financial Statements of Segregated Funds

Consolidated statements of changes in net assets

Years ended December 31 (in millions of dollars)	2005	2004
	\$	\$
Balance at beginning	5,913.6	5,042.2
Additions:		
Amounts received from policyholders	1,276.7	976.9
Investment income	189.2	148.8
Net realized gains	262.5	72.8
Net increase in market value	442.6	334.4
	8,084.6	6,575.1
Deductions:		
Amounts withdrawn by policyholders	600.3	550.5
Operating expenses	135.5	111.0
	735.8	661.5
Balance at end	7,348.8	5,913.6

Consolidated statements of net assets

As at December 31 (in millions of dollars)	2005	2004
	\$	\$
Assets		
Bonds	2,113.6	1,677.8
Mortgages and mortgage-backed securities	24.1	36.8
Stocks	2,169.6	1,674.5
Fund units	2,572.0	2,144.2
Cash and short-term investments	456.3	373.7
Other assets	36.1	27.8
	7,371.7	5,934.8
Liabilities		
Accounts payable and accrued expenses	22.9	21.2
Net assets	7,348.8	5,913.6

Notes to Consolidated Financial Statements

Years ended December 31, 2005 and 2004 (in millions of dollars, unless otherwise indicated)

1 ■ Status and Nature of Operations

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 Company) engaged mainly in the development, marketing and distribution of insurance and annuity products. The Company also operates mutual fund, securities and trust businesses. The operations of the life and health insurance business extend throughout Canada and certain regions of the 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 contingent 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. Actual results could differ from management's best estimates. The most significant estimates are related to the determination of policy 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 and the results of operations of the subsidiaries are included in the consolidated financial statements from their dates of acquisition;
- The equity method of accounting is used for the investment in a significantly influenced entity, MD Life, for 45% of the share capital.

The principal intercompany transactions have been eliminated.

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 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 classified as impaired, allowances for losses are established to adjust the carrying value of the asset to its net recoverable amount. Furthermore, interest is no longer accrued and recognized in the income statement, and previous interest accruals are reversed.

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

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

2 ■ Accounting Policies (continued)

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. Permanent declines in value of the entire stock portfolio (determined net of deferred realized gains) are recognized immediately.

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

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

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 held for investment 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. Permanent declines in value of the entire real estate held for investment portfolio (determined net of deferred realized gains) are recognized immediately.

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

Real estate held for resale is measured at the lower of fair value less cost to sell 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.

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.

Derivative Financial Instruments

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

The Company believes that derivative financial instruments are efficient hedges 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 Company also uses credit contracts as part of its management of the credit risk exposure with respect to certain investments. 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 gains and losses corresponding to the hedge 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 used for hedging purposes 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.

2 ■ Accounting Policies (continued)

Other Invested Assets

Other invested assets include the investment in the significantly influenced entity, the notes receivable and the cash in trust.

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 and is not amortized. 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 is recognized in the income statement for an amount equal to the excess.

Intangible Assets

Indefinite-life intangible assets are assessed for impairment annually by comparing their carrying values to their fair values. When the carrying amounts of the indefinite-life intangible assets exceed their fair value, an impairment loss is 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.

Deferred Sales Commissions

Sales commissions arising on mutual fund sales are recorded at cost and amortized on a straight-line basis over a period of 2 or 5 years. Unamortized deferred sales commissions are written down to the extent that the carrying value exceeds the expected future revenue on an undiscounted basis.

Provisions for Future Policy Benefits

Provisions for future policy benefits represent the amount which, after consideration of 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 a generally accepted actuarial practice and respects the standards established by the Canadian Institute of Actuaries (CIA).

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. A future income tax asset is recognized to the extent that future realization of the tax benefit is more likely than not, with a valuation allowance for the excess.

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 Company'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 generally 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, provisions for future policy benefits are computed, with the result that benefits and expenses are matched with such revenue.

2 ■ Accounting Policies (continued)

Net investment income

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

Fees and Other Revenues

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

Net Transfer to Segregated Funds

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

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 expenses for the plan are included as a remuneration expense 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

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 the Canadian Institute of Chartered Accountants (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.

3 ■ Change in Accounting Policies (continued)

Consolidation of Variable Interest Entities

On January 1, 2005, the Company adopted CICA Accounting Guideline (AcG) 15, on Consolidation of Variable Interest Entities (VIE). 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 Company has determined that no VIE is required to be consolidated under the new guideline. In July 2003, Industrial Alliance Capital Trust (the Trust), an open-end trust, issued Industrial Alliance Trust Securities (IATS), the proceeds of which were used to purchase debentures from the Company. The Trust is a VIE as defined by AcG 15 and because the Company is deemed not to be the primary beneficiary, the IATS issued by the Trust are no longer consolidated beginning as at January 1, 2005, and the debentures issued by the Company will be reported as debentures issued by the Trust. The IATS, totalling \$150.0, continue to form part of the Company's Tier 1 regulatory capital.

Investment Companies

On January 1, 2005, the Company adopted AcG 18, on 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. The application of the accounting guideline did not have any impact on these consolidated financial statements.

Future Change in Accounting

Financial Instruments

In 2005, the CICA issued 3 new accounting standards: Handbook Section 1530, Comprehensive Income, Handbook Section 3855, Financial Instruments – Recognition and Measurement, and Handbook Section 3865, Hedges. These standards will be effective for the Company on January 1, 2007. The impact of implementing these new standards on its Consolidated Financial Statements is not yet determinable.

Comprehensive Income

As a result of adopting these standards, a new category, Accumulated Other Comprehensive Income, will be added to Shareholders' Equity on the Consolidated Balance Sheets.

Financial Instruments – Recognition and Measurement

Under the new standard, all financial instruments will be classified as one of the following: Held-to-maturity, Loans and Receivables, Held-for-trading or Available-for-sale. Financial assets and liabilities held-for-trading will be measured at fair value with gains and losses recognized in Net Income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, will be measured at amortized cost. Available-for-sale instruments will be measured at fair value with unrealized gains and losses recognized in Other Comprehensive Income.

Hedges

This new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed for each of the permitted hedging strategies.

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 finding, the financial statements have been restated. The impact of this restatement on the consolidated income statement translates into a \$2.0 increase in the net income attributable to shareholders and an equivalent decrease in the net income attributable to participating policyholders during the year ended December 31, 2004. 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.

5 ■ Norshield Provision

In May 2005, the Company made a commitment to its clients to ensure the liquidity of their investments in two hedge funds managed by Norshield Financial Group (Norshield).

The Company decided to transfer all amounts invested by its clients in the funds managed by Norshield to another manager, the impact of which was to increase the Company's direct holdings in the two Norshield hedge funds to \$77.9.

In light of observations contained in the preliminary report tabled November 17, 2005 at the Ontario Superior Court of Justice by RSM Richter Inc. in its capacity as the court-appointed receiver of the Norshield Companies, the Company recorded a provision in Norshield of \$77.9, presented in the net investment income in the income statement (\$52.1 after tax), which corresponds to its entire investment in Norshield.

6 ■ Acquisition of Business

On December 28, 2005 the Company completed the acquisition of 87.37% of the common shares of Clarington Corporation (Clarington), a mutual fund management company, for a cash consideration of \$143.2 and an issuance of 1,720,985 of its own common shares for a total amount of \$191.7. The value of the 7.86% already held by the Company is \$14.2. Also, a maximal amount of \$10.6 has been accounted for the future purchase of the common shares in the following months. 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 during the year 2006 and may result in the reallocation of the purchase price.

On December 9, 2005, the Company completed the acquisition of certain assets of iFORUM Securities Inc. (iFORUM), a securities broker, for a cash consideration of \$0.1. 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 during the year 2006 and may result in the reallocation of the purchase price.

On April 22, 2005, the Company completed the acquisition of certain assets of KingsGate Securities Limited (KingsGate) for a total consideration of \$2.0 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 during the year 2006 and may result in the reallocation of the purchase price.

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. An amount of \$1.3 under the recovery clause was recovered on March 3, 2005, decreasing the purchase price by this amount.

On June 30, 2004, the Company purchased 100% of the common shares of Lynch Investments Limited, a securities broker, for a consideration of \$0.4 in cash.

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 assets acquired and liabilities assumed are summarized as follows:

		2005	
	Clarington	KingsGate	iFORUM
Assets acquired			
Cash and cash equivalents	20.1	—	—
Other invested assets	1.0	—	—
Other assets	53.7	—	—
	74.8	—	—
Liabilities assumed			
Other liabilities	19.8	—	—
Subordinated debt	62.9	—	—
	82.7	—	—
Net assets acquired	(7.9)	—	—
Goodwill	227.4	2.0	0.1
Purchase price	219.5	2.0	0.1

6 ■ Acquisition of Business (continued)

	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
Intangible assets	62.0	—	0.1	5.1
	72.7	0.1	0.2	9.5
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	67.8	—	0.1	5.3
Goodwill	—	0.4	—	—
Purchase price	67.8*	0.4	0.1	5.3

* The purchase price was adjusted by an amount of \$1.3 under the recovery clause

Following the analysis of the purchase price of 2004 acquisitions, the amount presented as goodwill had been reclassified as indefinite intangible assets.

7 ■ Restructuring Cost

In acquiring Clarington in December 28, 2005, the Company initiated the process of developing a plan to restructure and consolidate the activities involving Clarington's business operations, locations and back-office systems. Related costs will include back office conversion expenses, penalties to third parties and compensation costs. These costs, which have been accounted for as part of the purchase price, amount to \$18.5.

	Accrued on acquisition			
	Expected future costs \$	Amounts incurred in 2005 \$	Cumulative amount incurred to date \$	Balance as at December 31, 2005 \$
Cost of restructuring operations	18.5	—	—	18.5

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

	Accrued on acquisition			
	Expected future costs \$	Amounts incurred in 2005 \$	Cumulative amount incurred to date \$	Balance as at December 31, 2005 \$
Compensation cost	1.3	1.1	1.1	0.2
Cost of restructuring operations	2.1	1.6	1.6	0.5
Total	3.4	2.7	2.7	0.7

On December 1, 2004, the Company announced the combination of the operations of its subsidiary "The National Life Assurance Company of Canada" (National Life) with its own operations during the years 2005 and 2006.

The impact of this decision on the consolidated financial statements was an increase of \$6.1 (\$4.1 after tax) in the general expenses in 2005 and an increase of \$1.6 (\$1.0 after tax) in the general expenses, \$4.4 in the income taxes and in the future income tax liabilities and of \$0.6 in the change in provisions for future policy benefits and provision for future policy benefits in 2004.

7 ■ Restructuring Cost (continued)

	Expenses as incurred				Balance as at December 31, 2005
	Expected future costs \$	Amounts incurred in 2004 \$	Amounts incurred in 2005 \$	Cumulative amount incurred to date \$	
Compensation cost	4.0	1.6	1.6	3.2	0.8
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	0.2
Accelerated depreciation of software and equipment	3.0	—	1.6	1.6	1.4
Systems conversion and other	4.0	—	2.9	2.9	1.1
Total	16.2	6.6	6.1	12.7	3.5

8 ■ Net Investment Income

Net investment income was derived from the following sources:

	2005			
	Investment income \$	Amortization of realized and unrealized gains (losses) \$	Change in provision for losses \$	Total \$
Bonds	400.8	42.5	1.6	444.9
Mortgages	150.6	3.8	—	154.4
Stocks	16.5	105.6	(77.9)	44.2
Real estate (net of \$46.3 operating expenses)	31.4	4.7	—	36.1
Short-term investments	9.1	—	—	9.1
Significantly influenced entity	2.0	—	—	2.0
Other	12.8	—	—	12.8
	623.2	156.6	(76.3)	703.5
Investment expenses	(12.6)	—	—	(12.6)
Total	610.6	156.6	(76.3)	690.9

	2004			
	Investment income \$	Amortization of 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

9 ■ Government Assistance

The Company accounted for government assistance of \$7.2 (\$4.8 after tax) in 2005 (\$6.6 (\$4.6 after tax) in 2004). These amounts were accounted for based upon receipt of formal confirmation in 2005 and 2004 from the Quebec government for the current and prior years. 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 2006.

10 ■ Income Taxes

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

	2005		2004	
	\$	%	\$	%
Income before income taxes	194.0	—	236.9	—
Provision for income tax at Canadian statutory rates	66.3	34.17	80.0	33.77
Non-taxable income	(10.4)	(5.36)	(9.4)	(3.97)
Impact of integration of National Life operations	—	—	4.4	1.86
Change in tax rate	0.2	0.10	(2.7)	(1.14)
Large corporations and financial institutions taxes	3.3	1.70	5.4	2.28
Income taxes and effective income tax rates	59.4	30.61	77.7	32.80

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

	2005	2004
	\$	\$
Current income taxes	20.4	27.3
Future income taxes	39.0	50.4
Total	59.4	77.7

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

	2005	2004
	\$	\$
Policy liabilities	253.0	202.8
Real estate	50.0	44.4
Other	(37.5)	(22.9)
Total	265.5	224.3

11 ■ Invested Assets

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

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

11 ■ Invested Assets (continued)

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

	2005				
	Carrying value of unimpaired investments \$	Carrying value of impaired investments \$	Total carrying value of investments \$	Unrealized gains (losses) \$	Fair value \$
Bonds					
Governments	4,001.2	—	4,001.2	1,164.9	5,166.1
Municipalities	103.7	—	103.7	18.1	121.8
Corporate and other	2,513.5	1.2	2,514.7	194.4	2,709.1
	6,618.4	1.2	6,619.6	1,377.4	7,997.0
Mortgages					
Insured	1,338.7	6.7	1,345.4	25.3	1,370.7
Conventional	1,074.9	0.5	1,075.4	23.7	1,099.1
	2,413.6	7.2	2,420.8	49.0	2,469.8
Stocks	1,162.4	—	1,162.4	92.7	1,255.1
Real estate					
Held for investment	440.4	—	440.4	63.6	504.0
Held for resale	—	5.9	5.9	—	5.9
	440.4	5.9	446.3	63.6	509.9
Policy loans	182.6	—	182.6	—	182.6
Short-term investments	2.6	—	2.6	—	2.6
Cash and cash equivalents	305.7	—	305.7	—	305.7
Other invested assets	86.9	—	86.9	—	86.9
Total	11,212.6	14.3	11,226.9	1,582.7	12,809.6
	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	214.3	—	214.3	—	214.3
Other invested assets	37.7	—	37.7	—	37.7
Total	10,574.3	15.3	10,589.6	1,131.0	11,720.6

11 ■ Invested Assets (continued)**Other invested assets**

	2005	2004
	\$	\$
Significantly influenced entity	12.2	10.2
Cash in trust	29.1	18.9
Notes receivable	45.6	8.6
Total	86.9	37.7

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.

2005				
	Bonds		Mortgages	
	Carrying value	Fair value	Carrying value	Fair Value
	\$	\$	\$	\$
Due in 1 year or less	494.3	494.6	279.0	280.0
Due after 1 year through 5 years	1,325.4	1,382.0	1,431.8	1,444.8
Due after 5 years through 10 years	1,280.3	1,456.3	374.1	391.0
Due after 10 years	3,519.6	4,664.1	335.9	354.0
Total	6,619.6	7,997.0	2,420.8	2,469.8

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

The effective yield is between 1.41% and 14.74% (2.02% and 14.74% in 2004) for bonds, between 1.50% and 13.00% (2.58% and 13.00% in 2004) for mortgages.

Bonds by investment grade

	2005	2004
	Carrying value	Carrying value
	\$	\$
AAA	813.2	596.0
AA	1,079.8	1,038.3
A	4,220.8	3,987.4
BBB	482.2	438.5
BB and lower	23.6	14.3
Total	6,619.6	6,074.5

11 ■ Invested Assets (continued)**Mortgages by region and type**

	2005					
	Atlantic provinces \$	Québec \$	Ontario \$	Western provinces \$	Outside Canada \$	Total \$
Residential	0.7	345.0	43.2	6.0	—	394.9
Multi-residential	19.6	711.4	166.6	349.4	179.0	1,426.0
Non-residential	30.3	234.9	91.6	223.0	20.1	599.9
Total	50.6	1 291.3	301.4	578.4	199.1	2,420.8

	2004					
	Atlantic provinces \$	Québec \$	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

Real estate by type of property

	2005	2004
	Carrying value \$	\$
Residential and multi-residential	7.8	7.4
Office	327.4	327.3
Retail	89.3	88.4
Industrial	10.4	10.2
Land and other	11.4	11.2
Total	446.3	444.5

c) Provisions for Credit Losses

	2005	2004
	\$	\$
Bonds	4.6	32.4
Conventional mortgage loans	3.0	3.0
Real estate acquired to settle loans	3.7	3.7
Other	77.9	—
Total	89.2	39.1

Continuity of provisions		
Balance at beginning	39.1	40.7
Net increase in provisions for losses	78.2	—
Write-offs, net of recoveries	(28.1)	(1.6)
Balance at end	89.2	39.1

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, 2005, the Company had loaned securities, which are included in invested assets, with a carrying value and market value of approximately \$379.1 and \$405.2 respectively (\$523.6 and \$587.5 in 2004).

11 ■ Invested Assets (continued)**e) 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 asset held for hedging purposes will have little impact on the financial position of the Company and on its ability to honour its obligations. In the evaluation of its policy liabilities, as described in note 15, the Company takes into account the level of matching achieved between assets and liabilities.

12 ■ Goodwill

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

	2005	2004
	\$	\$
Balance at beginning	125.7	56.5
Acquisition of businesses	229.5	68.9
Adjustment on previous years' transactions	(1.0)	0.3
Reclassification to the intangible assets	(67.5)	—
Balance at end	286.7	125.7

The amount shown in the line adjustment on previous years' transactions for the year 2005 represents the balance recovered from the purchase price of BLCER (note 6) and an amount related to the transaction fees.

13 ■ Intangible Assets

The intangible assets include:

	Cost	2005 Accumulated amortization	Net amount
	\$	\$	\$
Indefinite Life:			
Management contract	67.5	—	67.5
Total	67.5	—	67.5

14 ■ Other Assets

Other assets consist of the following:

	2005	2004
	\$	\$
Systems hardware and software, furniture, and equipment, at cost	83.1	76.9
Less: accumulated depreciation	56.0	52.7
	27.1	24.2
Leasehold improvements, at cost	52.5	50.7
Less: accumulated depreciation	25.9	28.0
	26.6	22.7
Investment income due and accrued	62.2	57.5
Outstanding premiums	37.5	65.0
Due from reinsurer	45.8	21.4
Miscellaneous	192.6	124.7
	338.1	268.6
Total	391.8	315.5

The depreciation and amortization of property and equipment is \$12.8 (\$13.6 in 2004).

The miscellaneous item includes primarily the amounts due from agents, deferred expenses, prepaid expenses deferred sales commissions and accounts receivable.

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

15 ■ Policy Liabilities

Policy liabilities represent the amounts which, together with estimated future premiums and investment income, will be sufficient to pay estimated benefits, policyholder dividends and expenses on policies in force. 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:

	Individual		Group		
	Life & Health \$	Wealth Management \$	Life & Health \$	Pensions \$	Total \$
2005					
Policy liabilities					
Canada	4,081.7	1,446.1	943.4	2,177.0	8,648.2
United States	109.9	250.0	—	0.2	360.1
Other countries	48.3	0.5	—	0.1	48.9
Total	4,239.9	1,696.6	943.4	2,177.3	9,057.2
Assets backing policy liabilities					
Bonds and other fixed interest securities	2,799.4	640.6	582.0	1,314.5	5,336.5
Mortgages	297.8	978.8	332.3	664.6	2,273.5
Stocks	895.0	15.3	1.8	34.2	946.3
Real estate	66.4	17.0	—	144.0	227.4
Policy loans	153.1	28.1	—	—	181.2
Other invested assets	28.2	16.8	27.3	20.0	92.3
Total	4,239.9	1,696.6	943.4	2,177.3	9,057.2
2004					
	Individual		Group		
	Life & Health \$	Wealth Management \$	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 invested 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

The fair value of assets backing policy liabilities as at December 31, 2005 was estimated at \$10.1 billion (\$9.5 billion in 2004). 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.

15 ■ Policy Liabilities (continued)

Assumptions

To compute the policy liabilities, the Company uses assumptions based on the Appointed Actuary's best estimate of future experience for many variables. These variables include mortality, morbidity, investment returns, lapse rates, operating expense levels, inflation, policyholder dividends and taxes. The assumptions cover the term of the liabilities being valued, taking into consideration events that might occur in a distant future. All assumptions are examined periodically and are subject to changes to ensure they appropriately reflect emerging experience and changes in risk profile.

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 wealth management 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 morbidity 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 interest rate risk is the risk of loss due to changing 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 manages the interest rate 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 blocks of business being grouped together by line of business.

Currency Risk

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

Expenses

Policy maintenance expenses were calculated using the Company's internal expense allocation 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 expected 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.

15 ■ Policy Liabilities (continued)**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 Risk

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 wealth management 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.

Changes in policy liabilities*

	2005	2004
	\$	\$
Balance at beginning	8,493.7	7,993.5
Recapture of reinsurance	(6.2)	—
Reinsurance assumed	10.5	—
Impact of the integration of National Life operations	—	0.6
Changes in assumptions	2.3	5.7
Normal changes	566.5	521.5
Foreign currency translation	(9.6)	(27.6)
Balance at end	9,057.2	8,493.7

* Including participating policyholders' account

16 ■ Other Liabilities

Other liabilities consist of the following:

	2005	2004
	\$	\$
Unearned premiums	77.9	70.4
Other contractual liabilities	27.4	26.2
Mortgage debts	26.5	38.6
Future income tax liabilities	265.5	224.3
Amounts on deposit on product other than insurance	77.8	58.2
Accounts payable and miscellaneous	228.7	195.4
Due to reinsurers	13.9	12.5
Total	717.7	625.6

The mortgage debts bear interest between 6.82% and 7.17% with a maturity between 2009 and 2012. These mortgage debts are secured on real estate with a carrying value of \$120.5 (\$135.8 in 2004).

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

2006	2007	2008	2009	2010
\$	\$	\$	\$	\$
1.0	1.1	1.2	1.1	1.1

The interest expense on the mortgage debts is \$2.3 (\$2.8 in 2004).

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 \$27.8 (\$40.6 in 2004) taking into consideration the interest rates attached to the mortgage debt and the current interest rates.

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.

	2005	2004
	\$	\$
Related to policy liabilities		
Bonds	383.1	321.8
Stocks	15.0	15.7
Mortgages	16.3	15.4
Real estate	3.6	4.8
	418.0	357.7
Related to equity		
Bonds	15.6	15.6
Stocks	8.2	3.1
Mortgages	(5.0)	(4.6)
Real estate	7.3	8.9
	26.1	23.0
Total	444.1	380.7

18 ■ Subordinated Debentures and Other Debts

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

Subordinated debentures

	2005		2004	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
Subordinated debenture, Series A, bearing interest of 5.714% payable semi-annually, redeemable at the option of the Company beginning in December 2008 or repayable on maturity in 2053.	150.0	160.2	—	—
Funding debenture, Series A, bearing interest of 5.714%, payable semi-annually, redeemable at the option of the Company at any time or repayable on maturity in 2053.	10.1	10.8	—	—
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. This subordinated debenture is 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, at par, with the prior approval of the Autorité des marchés financiers.	150.0	155.8	150.0	150.7
Subordinated debt obligation, bearing interest at a rate equal to the Canadian Banker's Acceptance rate + 1.75%, repayable over a period of 7 years beginning on December 31, 2004, prepayment subject to consent by the Ontario Securities Commission.	62.9	62.9	—	—
Total	373.0	389.7	150.0	150.7
Other debts				
Trust units issued by Industrial Alliance Capital Trust: 150,000 Trust securities — Series A	—	—	150.0	155.8
Total	—	—	150.0	155.8
Total	373.0	389.7	300.0	306.5

The reimbursement of the subordinated debt over the next 5 years will be:

2006	2007	2008	2009	2010
\$	\$	\$	\$	\$
10.2	10.2	10.2	10.2	10.2

The net financing expense on the subordinated debentures and other debt is \$17.0 (\$16.3 in 2004).

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

18 ■ Subordinated Debentures and Other Debts (continued)**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.

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.

19 ■ Minority Interest

The Company controls an 83.50% equity interest in FundEX and the effect on the financial statement of the minority interest is not material.

20 ■ 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 prior 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, on the last day of June and December of each year commencing on 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.

20 ■ Share Capital (continued)

	2005		2004	
	Number of shares (in thousands)	Amount \$	Number of shares (in thousands)	Amount \$
Common shares				
Balance at beginning	79,489.4	458.3	78,691.2	438.5
Shares issued on exercise of stock options	179.8	4.0	105.4	2.3
Shares issued on acquisition of business	1,721.0	48.5	20.0	0.5
Cancellation of shares issued at demutualization	(3.0)	—	(216.4)	(1.7)
Shares issued on conversion of preferred shares – Series 1	—	—	889.2	18.7
Balance at end	81,387.2	510.8	79,489.4	458.3
Shares held in treasury	(21.6)	(0.2)	(21.6)	(0.2)
	<u>81,365.6</u>	<u>510.6</u>	<u>79,467.8</u>	<u>458.1</u>
Preferred shares - Series 1				
Balance at beginning	—	—	750.0	18.7
Shares converted into common shares	—	—	(750.0)	(18.7)
Balance at end	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Preferred shares - Series A				
Balance at beginning	4.0	0.1	4.0	0.1
Shares issued	—	—	—	—
Balance at end	<u>4.0</u>	<u>0.1</u>	<u>4.0</u>	<u>0.1</u>
Shares held in treasury	(4.0)	(0.1)	(4.0)	(0.1)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total share capital		<u>510.6</u>		<u>458.1</u>

On May 4, 2005, the shareholders approved a two-for-one split of the Company's common shares. The split took effect on May 18, 2005. The number of common shares, the number of stock options outstanding and the weighted average exercise price in the stock-based compensation and the earnings per share have been retroactively adjusted to reflect the split.

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 889,174 common shares, for an amount of \$18.7.

21 ■ Earnings per Share

	2005 \$	2004 \$
Shareholders' net income	132.2	155.1
Less: dividends on preferred shares	—	(0.1)
Common shareholders' net income	132.2	155.0
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
Common shareholders' net income on a diluted basis	132.2	155.2
Weighted daily average number of shares outstanding	79,590,705	79,235,874
Add: diluted effect of stock options granted and outstanding	572,710	299,150
Add: diluted effect of convertible preferred shares into common shares	—	189,152
Weighted average number of shares outstanding on a diluted basis	80,163,415	79,724,176
Earnings per share (in dollars)		
basic	1.66	1.96
diluted	1.65	1.95

22 ■ 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 a maximum rate of 25% per year for the first 4 anniversaries of the grant. In the case of a preliminary expiry date, the Human Resources and Corporate Governance Committee can modify the number of options acquired at the date of the event.

The Board can grant options for a total of 5,261,304 common shares (about 7% of the outstanding common shares upon the creation of the plan) and cannot grant more than 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:

	2005		2004	
	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	2,609.1	21.09	2,301.7	20.46
Granted	536.0	28.72	536.0	23.36
Exercised	(179.8)	20.22	(105.3)	19.57
Forfeited	(67.0)	21.92	(123.3)	20.60
At end	2,898.3	22.53	2,609.1	21.09
Exercisable at end	1,650.9	20.76	1,159.4	20.45

Fair value of 2005 options was estimated to be \$6.83 at the grant date using the Black-Scholes option pricing model. The pricing model assumes the following information:

Risk free interest rate	3.89%
Expected volatility	20%
Expected life	7 years
Expected dividends	1.55%

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 use assumption which are highly subjective, including expected volatility of the underlying stock. Changes in assumptions can materially affect estimates of fair values.

22 ■ Stock-Based Compensation (continued)

Exercise Prices (in dollars)	Number of options outstanding (in thousands)	Options outstanding	
		Average remaining life (in years)	Number of exercisable options (in thousands)
19.06	681.8	4.67	681.8
22.81	778.0	5.56	609.5
18.63	393.5	6.79	210.5
19.00	20.0	7.82	10.0
23.44	489.0	7.87	139.1
28.72	536.0	9.12	—
Total	2,898.3	6.58	1,650.9

The charge related to the stock-based compensation during the year is \$3.3 (\$3.2 in 2004)

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 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.

Deferred Share Units (DSU)

The plan is offered to the directors and management personnel of the Company. 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. The election to participate must be made on an annual basis.

23 ■ Employee Future Benefits

The Company maintains a number of funded and unfunded defined benefit plans which provide pension benefits 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

For accounting purposes, the Company measures by extrapolation its accrued benefit obligation for the current year from the previous year's actuarial valuation. The most recent actuarial valuation of the pension plans for funding purposes was December 31, 2004 and the next required valuation will be as at December 31, 2007.

	2005		2004	
	Pension plans \$	Other plans \$	Pension plans \$	Other plans \$
Defined benefit plan assets				
Fair value at beginning	299.3	—	265.6	—
Actual return on assets	48.5	—	30.9	—
Company contributions	13.1	—	10.2	—
Employee contributions	5.2	—	5.1	—
Benefits paid	(17.9)	—	(12.5)	—
Fair value at end	348.2	—	299.3	—

23 ■ Employee Future Benefits (continued)**Defined Benefit Plans** (continued)

	2005		2004	
	Pension plans \$	Other plans \$	Pension plans \$	Other plans \$
Accrued benefit plan obligations				
Balance at beginning	321.8	20.1	287.1	16.1
Current service cost	12.2	0.7	11.6	1.2
Interest cost	18.5	1.1	16.6	0.9
Employee contributions	5.2	—	5.1	—
Benefits paid	(17.9)	(0.6)	(12.5)	(0.5)
Actuarial (gains) losses	10.7	1.2	13.9	2.4
Balance at end	350.5	22.5	321.8	20.1

Accrued plan obligations are composed of:

Funded plans	302.4	—	279.7	—
Unfunded plans	48.1	22.5	42.1	20.1
	350.5	22.5	321.8	20.1

Reconciliation of funded status to the amounts recorded in financial statements

Fair value of plan assets	348.2	—	299.3	—
Accrued benefit plan obligations	350.5	22.5	321.8	20.1
Funded status of plans – surplus (deficit)	(2.3)	(22.5)	(22.5)	(20.1)
Unamortized net actuarial (gains) losses	(0.5)	2.7	17.1	1.5
Unamortized past service costs	5.2	—	5.6	—
Unamortized transitional obligation	(4.6)	0.5	(5.0)	0.6
Accrued benefit asset (liability), net of valuation allowance	(2.2)	(19.3)	(4.8)	(18.0)

The amounts in the balance sheet are:

Other assets (note 14 included in <i>Miscellaneous</i>)	7.1	—	7.4	(0.5)
Other liabilities (note 16 included in <i>Accounts payable and miscellaneous</i>)	9.5	19.3	12.4	17.5

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

Included in the above defined benefit plan obligations and fair value of plan assets at year end are the following amounts in respect of plans that are not fully funded:

	2005		2004	
	Pension plans \$	Other plans \$	Pension plans \$	Other plans \$
Funded status – plan deficit				
Accrued benefit plan obligations	8.0	—	82.4	—
Fair value of plan assets	6.7	—	71.2	—
Funded status – plan deficit	(1.3)	—	(11.2)	—

23 ■ Employee Future Benefits (continued)**Defined Benefit Plans** (continued)

	2005		2004	
	Pension plans \$	Other plans \$	Pension plans \$	Other plans \$
Benefit plan expenses				
Current service cost	12.2	0.7	11.6	1.2
Interest cost	18.5	1.1	16.6	0.9
Actual return on plan assets	(48.5)	—	(30.9)	—
Actuarial loss (gain) on plan	10.7	1.2	13.9	2.4
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	(7.1)	3.0	11.2	4.5
Adjustments to recognize the long-term nature of employee future benefit costs:				
Difference between actual return and expected return	27.5	—	12.2	—
Difference between actuarial (gain) loss recognized for the year and actuarial (gain) loss on accrued benefit plan obligations for the year	(9.9)	(1.2)	(12.9)	(2.4)
Difference between amortization of past service costs for the year and actual plan amendments for the year	0.5	—	0.5	—
Amortization of the transitional obligation	(0.5)	—	(0.5)	—
Defined benefit costs recognized	10.5	1.8	10.5	2.1

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

	2005 %	2004 %
Asset categories		
Bonds	40	40
Stocks	59	56
Other	1	4
Total	100	100

The pension plan assets contain 285,352 common shares of the Company (285,352 in 2004) for a market value of \$8.3 (\$7.8 in 2004).

Significant assumptions

	2005		2004	
	Pension plans %	Other plans %	Pension plans %	Other plans %
Accrued benefit plan obligations				
Discount rate	5.75	5.75	5.75	5.75
Rate of compensation increase	3.50	—	3.50	—
	2005		2004	
	Pension plans %	Other plans %	Pension plans %	Other plans %
Benefit plan expenses				
Discount rate	5.75	5.75	5.75	5.75
Expected long-term rate of return on plan assets	7.00	—	7.00	—
Rate of compensation increase	3.50	—	3.50	—

23 ■ Employee Future Benefits (continued)**Defined Benefit Plans** (continued)

	2005			
	Other plans			
Assumed health care cost trend rates	Drugs	Medical	Dental	Others
Initial health care cost trend rates	11.25%	13.00%	5.75%	5.25%
Cost trend rate declines to	5.25%	5.00%	5.75%	5.25%
Number of years required to stabilize the rate	11	11	—	—

	2004			
	Other plans			
Assumed health care cost trend rates	Drugs	Medical	Dental	Others
Initial health care cost trend rates	11.75%	15.00%	5.75%	5.25%
Cost trend rate declines to	5.25%	5.00%	5.75%	5.25%
Number of years required to stabilize the rate	8	10	—	—

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 2005.

	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, providing pension benefits, is maintained by the Company. 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 is \$0.5 (\$0.4 in 2004).

The liability related to this plan is presented in other liabilities (note 16 included in *Accounts payable and miscellaneous*) for an amount of \$2.0 (\$1.9 in 2004).

24 ■ 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.

	2005				
	Equity contracts \$	Currency contracts \$	Interest rate contracts \$	Credit contracts \$	Total contracts \$
Notional amount by term to maturity					
Less than 1 year	251.0	19.9	41.0	26.0	337.9
1 to 5 years	81.6	10.6	47.0	37.0	176.2
Over 5 years	—	40.1	—	—	40.1
Total	332.6	70.6	88.0	63.0	554.2
Fair value	—	6.0	0.3	1.1	7.4
Credit exposure risk					
Maximum credit risk	1.9	6.1	0.7	1.3	10.0
Potential future credit exposure	19.9	3.5	0.2	—	23.6
Credit equivalent amount	21.8	9.6	0.9	1.3	33.6

	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

The notional amount represents the amount to which a rate or price is applied to determine the cash flows to be exchanged periodically 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, 2005 and 2004 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.

25 ■ Participating Business

The net income available to the shareholders includes a portion of the net income of the participating policyholders' account that has been allocated during the year. There are regulatory restrictions on amounts of profit that can be transferred to shareholders. These restrictions generally take the form of a percentage of the dividends paid to policyholders.

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 also operates mutual fund, securities brokerage and trust businesses. These businesses are principally related to the Individual Wealth Management segment (formerly called Individual Annuity) and are now included in that segment. This new presentation has not been applied to the comparative figures of the segmented income statement for periods prior to January 1, 2005 because the data are not significant. The Company operates mainly in Canada and the operations outside Canada are not significant.

Segmented income statements

	2005					
	Individual		Group			
	Life and Health \$	Wealth management \$	Life and Health \$	Pensions \$	Other activities* \$	Total \$
Revenues						
Premiums	768.7	1,047.6	694.9	564.8	95.1	3,171.1
Net investment income	392.4	48.0	66.6	182.4	1.5	690.9
Fees and other revenues	7.6	133.2	11.0	15.7	(0.1)	167.4
	1,168.7	1,228.8	772.5	762.9	96.5	4,029.4
Operating expenses						
Cost of commitments to policyholders	702.3	218.0	504.6	495.8	68.2	1,988.9
Net transfer to segregated funds	—	891.1	—	225.0	—	1,116.1
Commissions, general and other expenses	346.1	124.6	217.6	21.4	20.7	730.4
	1,048.4	1,233.7	722.2	742.2	88.9	3,835.4
Income before income taxes	120.3	(4.9)	50.3	20.7	7.6	194.0
Income taxes	(37.3)	2.8	(16.2)	(6.2)	(2.5)	(59.4)
Net income (loss) before allocation of other activities	83.0	(2.1)	34.1	14.5	5.1	134.6
Allocation of other activities	2.7	0.7	1.0	0.7	(5.1)	—
Net income (loss) for the year	85.7	(1.4)	35.1	15.2	—	134.6
Attributable to shareholders	80.4	(1.4)	35.1	18.1	—	132.2
Attributable to participating policyholders	5.3	—	—	(2.9)	—	2.4

	2004					
	Individual		Group			
	Life and Health \$	Wealth management \$	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	15.6	128.9
	1,087.5	1,126.3	714.2	648.9	101.3	3,678.2
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	37.4	671.4
	975.3	1,078.0	664.1	628.7	95.2	3,441.3
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

* Includes other segments and intercompany eliminations.

26 ■ Segmented Information (continued)**Segmented general fund assets**

	Individual		2005 Group			Total \$
	Life and Health \$	Wealth management \$	Life and Health \$	Pensions \$	Other activities* \$	
Assets						
Invested assets	5,496.9	1,789.5	1,203.2	2,545.9	191.4	11,226.9
Goodwill	30.5	236.3	19.9	—	—	286.7
Intangible assets	—	67.5	—	—	—	67.5
Other assets	77.8	152.2	53.8	43.3	64.7	391.8
Total	5,605.2	2,245.5	1,276.9	2,589.2	256.1	11,972.9

	Individual		2004 Group			Total \$
	Life and Health \$	Wealth management \$	Life and Health \$	Pensions \$	Other activities* \$	
Assets						
Invested assets	4,788.6	2,131.6	1,046.1	2,462.2	161.1	10,589.6
Goodwill	30.5	75.3	19.9	—	—	125.7
Intangible assets	—	—	—	—	—	—
Other assets	122.5	75.5	66.8	56.6	(5.9)	315.5
Total	4,941.6	2,282.4	1,132.8	2,518.8	155.2	11,030.8

* Includes other segments and intercompany eliminations.

27 ■ Premiums

	Individual		2005 Group			Total \$
	Life and Health \$	Wealth management \$	Life and Health \$	Pensions \$	General insurance \$	
Invested in general fund	768.7	242.4	694.9	180.1	95.1	1,981.2
Invested in segregated funds	—	805.2	—	384.7	—	1,189.9
Total	768.7	1,047.6	694.9	564.8	95.1	3,171.1

	Individual		2004 Group			Total \$
	Life and Health \$	Wealth management \$	Life and Health \$	Pensions \$	General insurance \$	
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

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:

2006	2007	2008	2009	2010	2011 and thereafter
\$	\$	\$	\$	\$	\$
16.2	13.9	7.7	3.8	2.3	0.6

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, 2005 is \$2.0 (\$0.9 as at December 31, 2004).

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
	\$	\$
	16.7	135.3
		26.9

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.

Letters of Credit

In the normal course of its operations, the Company establishes bank letters of credit. The balance of these letters is \$2.3 (nil in 2004).

Indemnifications

Under certain unusual circumstances, the Company could be called upon to pay specific indemnification. 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 Company has not had to pay out significant indemnities in the past and considers the likelihood of such payment being made to be low.

Coverages

In the management of its operations, the Company must sometimes cover certain defaults of credit or payment conditions. These coverages represent a maximum amount of \$0.1 (0.1 in 2004).

29 ■ Related Party Transactions

The Company grants loans to its directors and managers under variable conditions. As at December 31, 2005, the balance of loans granted to them was \$2.2 (\$2.4 in 2004).

The Company concluded operations with a satellite company in the normal course of its operations. These operations are measured by the exchange value, which is the amount of the counterpart established and accepted by the related parties.

The following table provides a summary of the operations concluded by the Company with a satellite company during the period:

	2005	2004
	\$	\$
Fees and other revenues	9.3	8.0

At the end of the period, the amounts due or receivable from the satellite company were as follows:

	2005	2004
	\$	\$
Assets		
Account receivable	0.7	0.8
Liabilities		
Provisions for future benefits	10.5	—

The following table provides a summary of the operations concluded by the Company with a variable interest entity during the period:

	2005	2004
	\$	\$
Financing expenses	9.1	9.1

At the end of the period, the amounts due or receivable from the variable interest entity were as follows:

	2005	2004
	\$	\$
Assets		
Notes receivable	11.1	11.6
Special trust securities	0.5	0.5
Liabilities		
Subordinated debenture — series A	150.0	150.0
Funding debenture — series A	10.1	10.1

30 ■ 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)

	2005	2004	2003 (restated ¹)	2002 (restated ²)	2001
Profitability					
Profit					
Net income	134.6	159.2	140.3	103.5	106.6
Net income attributable to participating policyholders	2.4	4.1	3.4	6.1	2.7
Net income attributable to shareholders	132.2	155.1	136.9	97.4	103.9
Goodwill expense ³	—	—	—	—	3.4
Provision for Teleglobe ⁴	—	—	—	19.4	—
Restructuring charges ⁵	4.1	6.1	—	—	—
Change of reinsurer	(4.2)	—	—	—	—
Provision for Norshield ⁶	52.1	—	—	—	—
Net income attributable to shareholders, adjusted	184.2	161.2	136.9	116.8	107.3
Earnings per share⁷					
Earnings per share (basic)					
According to net income	\$1.66	\$1.96	\$1.76	\$1.29	\$1.38
According to adjusted net income	\$2.31	\$2.04	\$1.76	\$1.55	\$1.42
Earnings per share (diluted)					
According to net income	\$1.65	\$1.95	\$1.74	\$1.29	\$1.38
According to adjusted net income	\$2.30	\$2.02	\$1.74	\$1.55	\$1.42
Return on common shareholders' equity					
According to net income	10.3%	13.6%	13.9%	11.8%	14.0%
According to adjusted net income	14.0%	14.1%	13.9%	14.0%	14.4%
Net income attributable to shareholders by line of business, adjusted					
Individual Insurance	81.3	78.3	73.0	67.1	57.4
Individual Wealth Management ⁸	49.0	34.3	30.1	18.5	21.3
Group Insurance	35.7	33.9	19.8	18.8	12.8
Group Pensions	18.2	14.7	14.0	12.4	15.8
Total	184.2	161.2	136.9	116.8	107.3

	2005	2004	2003 (restated ¹)	2002 (restated ²)	2001
Business growth⁹					
Revenues					
Premiums					
General fund	1,981.2	1,870.9	1,724.7	1,580.5	1,504.2
Segregated funds	1,189.9	981.5	842.0	756.7	572.8
Total	3,171.1	2,852.4	2,566.7	2,337.2	2,077.0
Total premiums excluding CMA ¹⁰	3,171.1	2,852.4	2,566.7	2,337.2	1,889.0
Net investment income					
Investment income	609.8	596.0	574.5	557.4	561.1
Realized and unrealized gains (losses)	157.4	100.1	102.9	(78.3)	(16.6)
Change in provision for losses	(76.3)	0.8	(0.1)	(28.9)	(2.2)
Total	690.9	696.9	677.3	450.2	542.3
Fees and other income	167.4	128.9	99.5	90.8	92.0
Total revenues	4,029.4	3,678.2	3,343.5	2,878.2	2,711.3
Assets under management/administration					
Assets under management					
General fund	11,972.9	11,030.8	10,307.6	9,289.2	8,886.3
Segregated funds	7,348.8	5,913.6	5,042.2	4,173.5	4,049.6
Mutual funds	5,672.7	1,018.5	94.1	—	—
Other	785.9	872.0	—	—	—
Total	25,780.3	18,834.9	15,443.9	13,462.7	12,935.9
Assets under administration	12,390.9	9,641.1	4,129.6	3,298.2	2,192.7
Total	38,171.2	28,476.0	19,573.5	16,760.9	15,128.6
Individual Insurance					
Sales	141.3	139.9	128.7	133.3	145.0
Sales excluding CMA ¹⁰	141.3	139.9	128.7	133.3	135.6
Premiums	768.7	763.1	683.4	663.9	658.8
Individual Wealth Management					
Sales					
General fund	242.4	237.5	227.9	198.7	147.4
Segregated funds	805.2	669.3	430.8	392.0	381.7
Mutual funds	412.6	—	—	—	—
Total	1,460.2	906.8	658.7	590.7	529.1
Net investment funds sales					
Segregated funds	547.4	332.7	117.5	152.1	199.0
Mutual funds	148.7	—	—	—	—
Total	696.1	332.7	117.5	152.1	199.0
Funds under management					
General fund	1,695.5	1,770.9	1,775.3	1,737.5	1,721.7
Segregated funds	4,851.2	3,871.6	3,261.5	2,795.2	2,928.1
Mutual funds	5,659.8	1,018.5	94.1	—	—
Total	12,206.5	6,661.0	5,130.9	4,532.7	4,649.8

	2005	2004	2003 (restated ¹)	2002 (restated ²)	2001
Business growth⁹ (continued)					
Group Insurance					
Sales					
Employee Plans	52.3	55.7	53.3	92.4	59.1
Creditor Insurance	158.8	132.6	130.1	124.5	108.0
Special Markets Group (SMG)	87.4	79.7	71.5	65.7	32.3
Premiums and premium equivalents					
Employee Plans	475.4	448.4	426.0	378.6	331.6
Creditor Insurance	132.1	109.8	105.5	98.7	85.9
Special Markets Group (SMG)	87.4	79.7	71.5	65.7	32.3
Sub-total	694.9	637.9	603.0	543.0	449.8
Premium equivalents	102.9	96.1	99.2	43.9	33.5
Total	797.8	734.0	702.2	586.9	483.3
Group Pensions					
Sales					
Accumulation contracts					
General fund	25.7	49.1	35.3	40.7	82.0
Segregated funds	384.8	312.2	411.2	364.7	191.1
Total	410.5	361.3	446.5	405.4	273.1
Insured annuities (general fund)	154.3	99.8	109.9	86.0	133.9
Total	564.8	461.1	556.4	491.4	407.0
Total excluding CMA ¹⁰	564.8	461.1	556.4	491.4	235.0
Funds under management					
Accumulation contracts					
General fund	150.4	158.8	162.5	153.7	147.5
Segregated funds	2,402.9	1,927.8	1,599.6	1,143.8	923.9
Other	34.7	33.3	36.8	35.1	5.3
Total	2,588.0	2,119.9	1,798.9	1,332.6	1,076.7
Insured annuities (general fund)	2,026.2	1,936.4	1,905.1	1,652.3	1,639.7
Total	4,614.2	4,056.3	3,704.0	2,984.9	2,716.4

	2005	2004	2003 (restated ¹)	2002 (restated ²)	2001
Investments					
Value and distribution of investments					
Book value of investments	11,226.9	10,589.6	9,925.5	8,934.9	8,570.7
Market to book value of investments	114.1%	110.7%	109.8%	109.1%	107.0%
Distribution of investments by asset category					
Bonds	58.9%	57.3%	55.7%	52.5%	48.9%
Mortgages	21.6%	23.5%	25.1%	28.3%	31.0%
Stocks	10.4%	10.2%	9.4%	8.1%	8.2%
Real estate	4.0%	4.2%	4.3%	4.9%	5.0%
Other	5.1%	4.7%	5.5%	6.2%	6.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Distribution of investments by region					
Atlantic provinces	4.8%	5.1%	4.6%	5.3%	4.4%
Quebec	49.5%	49.6%	50.1%	50.5%	49.3%
Ontario	20.3%	20.7%	20.5%	20.3%	20.5%
Western provinces	16.9%	17.3%	17.9%	18.1%	18.5%
Outside Canada	8.5%	7.3%	6.9%	5.8%	7.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Impaired investments and provisions					
Gross impaired investments (excluding insured loans)	96.8	47.6	60.5	60.4	39.8
Provisions for losses	(89.2)	(39.1)	(40.7)	(41.1)	(15.7)
Net impaired investments (excluding insured loans)	7.6	8.5	19.8	19.3	24.1
Net impaired investments as a % of total investments	0.07%	0.08%	0.20%	0.22%	0.28%
Provisions as a % of gross impaired investments	92.1%	82.0%	67.3%	68.0%	39.1%
Bonds					
Book value of bond portfolio	6,619.6	6,074.5	5,527.9	4,686.4	4,193.2
Market to book value of the bond portfolio	120.8%	116.0%	115.2%	115.7%	111.9%
Distribution by credit rating					
Rating - AAA	12.3%	9.8%	11.3%	12.2%	12.4%
Rating - AA	16.3%	17.1%	15.7%	15.0%	13.1%
Rating - A	63.7%	65.7%	66.6%	65.0%	65.9%
Rating - BBB	7.3%	7.2%	6.3%	7.7%	8.6%
Rating - BB and lower	0.4%	0.2%	0.1%	0.1%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Distribution by category of issuer					
Governments	60.4%	64.5%	59.2%	55.1%	52.4%
Municipalities	1.6%	1.7%	1.8%	2.5%	1.2%
Corporations – public issues	25.1%	22.4%	26.0%	28.2%	32.9%
Corporations – private placements	12.9%	11.4%	13.0%	14.2%	13.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Other quality measures					
Delinquency rate	0.02%	0.02%	0.03%	0.03%	0.03%
Mortgages					
Book value of the mortgage portfolio	2,420.8	2,491.8	2,490.4	2,526.5	2,660.4
Market to book value of the mortgage portfolio	102.0%	102.8%	103.2%	103.5%	103.4%
Distribution by type of property					
Residential	16.3%	16.4%	17.1%	18.4%	18.7%
Multi-residential	58.9%	59.5%	55.6%	52.5%	51.3%
Non-residential	24.8%	24.1%	27.3%	29.1%	30.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

	2005	2004	2003 (restated ¹)	2002 (restated ²)	2001
Investments (continued)					
Mortgages (continued)					
Distribution by category					
Insured loans	55.6%	52.8%	48.6%	45.3%	40.9%
Conventional loans	44.4%	47.2%	51.4%	54.7%	59.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Other quality measures					
Delinquency rate					
Insured loans	0.50%	0.50%	0.75%	0.80%	0.27%
Conventional loans	0.05%	0.13%	0.97%	0.69%	0.62%
Total	0.30%	0.32%	0.86%	0.74%	0.48%
Proportion of delinquent loans that are insured	93.0%	81.0%	42.2%	49.0%	23.3%
Stocks					
Book value of the stock portfolio	1,162.4	1,081.1	930.3	720.1	703.2
Market to book value of the stock portfolio	108.0%	104.6%	102.9%	96.1%	98.2%
Distribution of stocks by category					
Common	4.9%	4.1%	4.1%	6.1%	7.4%
Preferred	12.8%	21.6%	24.8%	32.4%	29.8%
Market indices	18.2%	12.0%	11.1%	15.3%	19.3%
Investment fund units	64.1%	62.3%	60.0%	46.2%	43.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Real estate					
Book value of the real estate portfolio	446.3	444.5	425.7	436.0	424.9
Market to book value of the real estate portfolio	114.2%	108.6%	104.9%	104.5%	106.3%
Occupancy rate	96.8%	95.2%	93.9%	92.1%	96.3%
Capitalization and solvency					
Capital structure					
Subordinated debentures ¹¹	373.0	150.0	135.0	185.0	185.0
Other debt (IATS ¹²) ¹¹	—	150.0	150.0	—	—
Participating policyholders' account	19.7	17.3	13.2	59.5	53.4
Shareholders' equity					
Common shares	510.6	458.1	438.3	382.0	382.0
Preferred shares	—	—	18.7	75.0	75.0
Contributed surplus	12.3	9.5	6.5	3.3	—
Retained earnings	845.4	751.7	627.5	470.2	397.6
Currency translation account	(7.1)	(5.8)	(2.5)	7.5	10.2
Total	1,361.2	1,213.5	1,088.5	938.0	864.8
Total capital structure	1,753.9	1,530.8	1,386.7	1,182.5	1,103.2
Solvency ratio					
Available capital					
Net tier 1	1,187.5	1,246.2	996.1	695.0	681.0
Net tier 2	134.9	136.1	295.8	342.4	317.8
Total	1,322.4	1,382.3	1,291.9	1,037.4	998.8
Required capital	704.5	624.0	583.7	556.5	534.3
Solvency ratio (MCCSR ¹³)	188%	222%	221%	186%	187%
Debt measures					
Debt to capital ratio ¹⁴	21.3%	19.6%	20.6%	15.6%	16.8%
Coverage ratio (in number of times) ¹⁵	11.0	13.4	9.6	8.7	—

	2005	2004	2003 (restated ¹)	2002 (restated ²)	2001
Miscellaneous information					
Market data⁷					
Number of common shares outstanding (in millions)	81.4	79.5	78.6	75.4	75.4
Share price at the end of the period (in dollars)	\$29.07	\$27.50	\$21.90	\$19.75	\$23.33
Average share price (in dollars)	\$28.49	\$23.44	\$18.69	\$20.18	\$21.16
Market capitalization	2,366.3	2,185.6	1,721.3	1,486.8	1,756.3
Book value per outstanding common share (in dollars)	\$16.72	\$15.27	\$13.61	\$11.46	\$10.49
Dividend per common share (in dollars)	\$0.50	\$0.41	\$0.35	\$0.32	\$0.30
General expenses					
General expenses	273.1	257.8	237.4	229.9	212.0
Human resources					
Number of employees					
Life insurance companies	2,115	2,159	2,138	2,110	2,035
General insurance company	367	346	329	305	237
Other companies of the Industrial Alliance Group	264	121	36	19	9
Total	2,746	2,626	2,503	2,434	2,281
Number of Career representatives	1,445	1,379	1,309	1,310	1,270

For comparison purposes, certain previous data have been reclassified.

¹ The data for 2003 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 Goodwill expense has been adjusted pursuant to the introduction of new accounting rules with respect to the amortization or goodwill.

⁴ 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.

⁵ The restructuring charge results from the Company's decision, announced on December 1, 2004, to integrate the operations of its National Life subsidiary with those of the parent company.

⁶ In the third quarter of 2005, the Company decided to take a full provision on its entire investment in Norshield. This reduced the GAAP reported net earnings by \$77.9 million with a tax offset of \$25.8 million for a net reduction of \$52.1 million.

⁷ For comparison purposes, the market data for 2001 to 2004 have been recalculated to reflect the two-for-one split of the Company's common shares effective on May 18, 2005.

⁸ In the first quarter of 2005, the Company decided to combine its mutual fund and securities brokerage operations with its Individual Annuity operations, thus creating a new sector called "Individual Wealth Management". The comparative data for the previous periods have not been modified since the amounts were not material.

⁹ Sales are defined as follows for each line of business:

Individual Insurance: first-year annualized premiums;

Individual Wealth Management: premiums for the general fund and for the segregated funds, and deposits for the mutual funds.

Group Insurance: first-year annualized premiums for Employee Plans, including premium equivalents (administrative services only contracts); gross premiums (premiums before reinsurance) for Creditor Insurance; and premiums for Special Markets Group;

Group pensions: premiums.

¹⁰ The Canadian Medical Association (CMA) business is excluded from data for 2001. This business has a negligible impact for subsequent years. The CMA business has been transferred to MD Life Insurance Company, a life insurance company of which Industrial Alliance owns a 45% share, and is now presented at the equity value.

¹¹ Further to the application of AcG 15, the Company ceased to consolidate the Industrial Alliance Capital Trust securities in the first quarter of 2005. Following this change, the \$150.0 million in IATS as well as a \$10.1 million Trust financing debenture were reclassified as subordinated debentures in Industrial Alliance's capital structure.

¹² IATS: Industrial Alliance Trust Securities.

¹³ MCCR: Minimum continuing capital and surplus requirements.

¹⁴ Equals the total of the subordinated debentures and the other debts (IATS) divided by the capital structure.

¹⁵ Is obtained by dividing pre-tax income and financing expenses, by financing expenses.

Glossary

Administrative services only (ASO) contract – A group insurance contract administered by the Company on behalf of the client. Under this type of contract, the Company earns fees for its administrative services but the client assumes all risks inherent to the contract.

Assets under administration – All assets with respect to which the Company acts only as an intermediary between a client and an external fund manager.

Assets under management – All assets with respect to which the Company establishes a contract with a client and makes investment decisions for amounts deposited in this contract. Assets under management generally fall under one of the three following fund categories: the Company's general fund, segregated funds or mutual funds.

Capital structure – Total of Company equity, the participating policyholders' account and subordinated debentures.

Coverage ratio – A ratio that is expressed as a number of times and obtained by dividing pre-tax income, before financial expenses, by financial expenses.

Debt to capital ratio – A ratio that is expressed as a percentage and obtained by dividing the subordinated debentures and other debts (Industrial Alliance Trust securities - IATS), and, where applicable, preferred shares, by the capital structure.

Deposits – In the term "premiums and deposits", deposits represent the amounts of money that the Company receives under a mutual fund contract.

Earnings per share (EPS) – A measure of the Company's profitability, calculated by dividing the consolidated net income to shareholders, less the consolidated preferred dividends, by the weighted average number of outstanding shares for the period, excluding shares held in treasury.

Impaired investments – Bonds and mortgage loans that are three or more months in arrears and other investment securities in default.

Market capitalization – Market measure of the Company obtained by multiplying the share price by the number of issued and outstanding shares.

Minimum continuing capital and surplus requirements (MCCSR) – Measure of the Company's solvency founded on risks and prescribed by regulatory authorities to determine if an insurance company is sufficiently capitalized in comparison to the minimum set by the regulator.

Net income - adjusted – Net income, adjusted for non-recurring items, presented by management to provide data on a comparable basis from one period to another to allow for a better analysis of the Company's potential profitability. The adjusted net income is a non-GAAP figure. Note that there is no standardized definition of adjusted net income, therefore, the Company's adjusted net income cannot be compared to that of other issuers.

Premiums – Amounts of money that insureds or annuitants pay to the Company to be insured or purchase an annuity. Premiums include amounts for both new and existing business, net of premiums ceded to a reinsurer. Premiums correspond to the amounts posted under "Premiums" in the financial statements. The amounts paid into segregated funds are considered as premiums for the purposes of Industrial Alliance's consolidated financial statements.

Premium equivalents – Amounts of money paid by a client to the Company for administrative services rendered by the Company under an administrative services only (ASO) contract.

Return on common shareholders equity (ROE) – A ratio that is expressed as a percentage and obtained by dividing the net income to shareholders, less the consolidated preferred dividends, by the average common shareholders equity for the period, including the currency translation account and excluding the shares held in treasury.

Sales – Depending on the business sector in question, sales are defined as follows.

- **Individual Insurance:** First-year annualized premiums
- **Individual Wealth Management:** Premiums for the general fund and segregated funds and deposits for the mutual funds.
- **Group Insurance:**
 - Employee Plans: First-year annualized premiums including premium equivalents (administrative services only contracts)
 - Creditor Insurance: Gross premiums (premiums before reinsurance)
 - Special Markets Group (SMG): Premiums
- **Group Pensions:** Premiums

Share price – Closing price of the Company's share, as traded on the Toronto Stock Exchange.

Weighted average share price – The price at which Company shares are traded during a period, taking into account the proportional importance of the transactions performed on the share.

Abbreviations and Acronyms

AD&D	– Accidental death and dismemberment insurance
ASO	– Administrative services only
CAGR	– Compound annual growth rate
CMA	– Canadian Medical Association
EPS	– Earnings per share
GAAP	– Generally accepted accounting principles
GIC	– Guaranteed investment certificate
IA	– Industrial Alliance
IATS	– Industrial Alliance Trust securities
MCCSR	– Minimum continuing capital and surplus requirements
MER	– Management expense ratio
NBT	– National Bank Trust
P&C	– Property and casualty insurance
ROE	– Return on equity
SMG	– Special Markets Group

Board of Directors



John LeBoutillier

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

Chairman of the Board since 2005
Board member since 1997

Lawyer
Chairman of the Board of Industrial Alliance Insurance and Financial Services Inc.



Gilles Laroche

Eng.

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

Engineer
Corporate Director



Pierre Brodeur

Board member since 1999

Corporate Director



Yvon Charest

F.S.A., F.C.I.A.

Board member since 1999

Actuary
President and Chief Executive Officer of Industrial Alliance Insurance and Financial Services Inc.



Anne Dutil

Adm., B.A., B.Com.C.

Board member since 1996

Degree in administrative sciences
Corporate Director
President of Lacroix Dutil Investments Inc., a real estate firm



L.G. Serge Gadbois

B.Sc.Com., M.B.A.

Board member since 2006

Chartered Accountant
Corporate Director

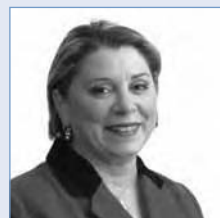


Michel Gervais

O.C., O.Q., Ph.D.

Board member since 1997

Administrator
Executive Director of Robert-Giffard Hospital, a psychiatric hospital



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

Professor at the University of Montreal and a Fellow at CIRANO, an interuniversity research centre in organizational analysis



Francis P. McGuire

M.A., B.A.

Board member since 2001

Corporate Director

President and Chief Executive Officer of Major Drilling Group International Inc., a drilling company with operations in twenty countries



Jim Pantelidis

B.Sc., M.B.A.

Board member since 2002

Degree in sciences

Chairman and Chief Executive Officer of FisherCast Global Corporation, a precision component manufacturing company



David R. Peterson

P.C., Q.C., C. St. J., L. d'H., D.U., LL.D.

Board member since 1991

Lawyer

Chairman of the Board and Senior Partner at Cassels Brock and Blackwell LLP, a law firm



Mary C. Ritchie

FCA

Board member since 2003

Chartered Accountant

President of Richford Holdings Ltd., an investment consulting firm



Guy Savard

C.M., FCA

Board member since 1995

Chartered Accountant

Vice-Chairman of the Board and Chairman of the Board of the Quebec operations of Merrill Lynch Canada Inc., an investment bank

- 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
- ◆ **René E. Trudeau – B.Sc., F.S.A., F.C.I.A., M.A.A.A.**
Executive Vice-President
Industrial Alliance, Toronto
- ◆ **Michael L. Stickney – M.B.A., F.S.A., F.C.I.A.**
Executive Vice-President
U.S. Development
- ◆ **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

Industrial Alliance Pacific Insurance and Financial Services

- ◆ **Gerald Bouwers – M.Math., F.S.A., F.C.I.A.**
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- Ronald W. Pepper – A.S.A., M.A.A.A.**
Vice-President and General Manager
Individual Insurance, U.S.
- Kathryn M. Cooper**
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- Mary Dinkel – CLU**
Vice-President, U.S. Sales Development
- Alnoor R. Jiwani, F.L.M.I.**
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Claims and Information Services
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Marketing and Administration, SAL
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- David L. Stewart**
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- Paul A. Tatay**
Vice-President, Special Markets Group

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- Pierre Bernard – CFA**
Vice-President
- Pierre Massicotte – CFA, CA, FCSI**
Vice-President, Finance
Administration and Compliance
Chief Financial Officer
Chief Compliance Officer
- Michael Steepe**
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- Denis Ricard – F.S.A., F.C.I.A.**
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Investor Relations
Secretary of the Management Committee
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Vice-President, Legal Services

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- Terry Stone**
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- Adrian Brouwers**
Vice-Chairman
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- Sal Tino – CA**
Executive Vice-President
Chief Financial Officer
- Gavin Foo – CA**
Vice-President, Finance
- Eric Frape – CA**
Vice-President, Product Management
- Suzanne Grimbile – CA**
Vice-President, Corporate Development
Secretary of the Company

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- Daniel Marceau – F.C.I.A.**
General Manager

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- Robert Corbett**
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- Johnny Roy – RLU, Fin. Plan.**
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- Sharon Smith – B.A.**
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Vice-President
Real Estate Investments
- Brian E. Wrixon – B.A., CLU**
Vice-President, Professional Development

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- Claude Benoit**
Vice-President
- Walter Bobko**
Vice-President
- Pierre Demers**
Vice-President
- Tom Lynch**
Vice-President
- Hervé Pizem**
Vice-President
- Daniel Plante**
Vice-President
- Fred Roberts**
Vice-President

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- Michel Laurin – F.C.I.A., F.C.A.S.**
President and Chief Operating Officer
- Jocelyne Guay**
Vice-President, Client Services

◆ Member of the Planning Committee

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1 800 361-7465

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**Investia Financial
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403 229-0765

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1 888 795-6677

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:

Computershare Investor Services Inc.
Telephone: 514 982-7555
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 information 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.



Notes



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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 103.

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www.inalco.com

