

# Industrial Alliance Embedded Value as at December 31, 2004



## Embedded Value - 2004

	EmV (\$M)	EmV/BV ratio	EmV per share (\$)
December 31, 2003	1,899	1.88x	48.41
Diluted <sup>1</sup>	---	---	48.33
Embedded Value Added in 2004	239	---	---
December 31, 2004	2,138	1.76x	53.80

High EmV/BV ratio ⇒ Visibility of potential earnings

<sup>1</sup> Diluted: Effect of the preferred shares conversion done in April 2004.

## Embedded Value Growth - 2001 to 2004

(\$Million)	2001	2002	2003	2004
Beginning of the year	1,393	1,542	1,643	1,899
EmV added during the year	149	101	256	239
End of the year	1,542	1,643	1,899	2,138
Growth	10.7%	6.5%	15.6%	12.6%

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## Embedded Value by Component - 2001 to 2004

	2001	2002	2003	2004
Capital variance <sup>1</sup>	--	--	3.4%	2.4%
Recurring items	13.0%	12.3%	11.1%	10.9%
Non-recurring items	(0.6%)	(4.2%)	2.7%	1.0%
Sub-total	12.4%	8.1%	17.2%	14.3%
Shareholders' dividend	(1.7%)	(1.6%)	(1.6%)	(1.7%)
Total	10.7%	6.5%	15.6%	12.6%

<sup>1</sup> Preferred shares conversion to common shares in April 2003 and April 2004 and National Life par funds transfer in 2004.

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## Embedded Value Added - 2004

	EmV (\$M)	Growth (%)	EmV per share (\$)
<b>Embedded value as at Dec 31, 2003</b>	<b>1,899</b>		<b>48.41</b>
Preferred shares conversion (April 2004)	19	1.0	(0.08)
NL par funds transfer	26	1.4	0.66
<b>Total capital variance</b>	<b>45</b>	<b>2.4</b>	<b>0.58</b>
Expected increase in EmV	143	7.5	3.53
New sales	64	3.4	1.60
<b>Total recurring items</b>	<b>207</b>	<b>10.9</b>	<b>5.13</b>
Experience gains or losses			
Market related	18	0.9	0.45
Not market related	8	0.4	0.20
Changes in assumptions	(10)	(0.6)	(0.25)
NL integration: Cost savings	37	2.0	0.92
Acquisition of BLCER	(33)	(1.7)	(0.82)
<b>Total non-recurring items</b>	<b>20</b>	<b>1.0</b>	<b>0.50</b>
<b>Shareholders' dividend</b>	<b>(33)</b>	<b>(1.7)</b>	<b>(0.82)</b>
<b>Embedded value as at Dec 31, 2004</b>	<b>2,138</b>	<b>12.6</b>	<b>53.80</b>

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## Embedded Value by Type of Fund - 2003 and 2004

(\$Million)	General funds	Individual Seg. Funds and Mutual Funds <sup>1</sup>	Total
<b>December 31, 2003</b>	<b>1,798</b>	<b>101</b>	<b>1,899</b>
<b>December 31, 2004</b>	<b>1,995</b>	<b>143</b>	<b>2,138</b>

<sup>1</sup> After annual transfer of profit to general funds.

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## Expected Increase in Embedded Value - 2004

	(\$Million)
Interest on free capital (3.9% of \$398 million)	15
Expected return (8.5% of \$1,502 million)	128
<b>Expected increase in EmV<sup>1</sup></b>	<b>143</b>

<sup>1</sup> Excluding new sales and shareholders' dividend paid.

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## New Sales - 2004

	(\$Million)	Per share
2003 value of new sales	53	\$1.35
Increase in sales	11	---
Pricing changes, business mix	0	---
<b>2004 value of new sales</b>	<b>64</b>	<b>\$1.60</b>

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## Experience Gains or Losses - 2004

	(\$Million)
<b>Market related</b>	
Individual Segregated Funds	6
General Funds	12
<b>Total</b>	<b>18</b>

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## Other Experience Gains or Losses & Changes in Assumptions - 2004

	(\$Million)
<b>Experience gains or losses not market related (Operating profit of Group Insurance<sup>1</sup>, currency change, miscellaneous)</b>	<b>8</b>
<b>Changes in assumptions (Change in hurdle/interest rate<sup>1</sup>, other)</b>	<b>(10)</b>

<sup>1</sup> Most significant items.

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## Assumptions

- Actuarial assumptions: consistent with "best estimate" assumptions in statutory reserves
- Economic assumptions:

	2003	2004
Discount rate (hurdle rate)	8.50%	8.00%
Risk premium	3.00%	3.00%
Inflation rate	2.00%	2.00%

## Sensitivity Analysis

### Impact on Total Embedded Value

	2003	2004
Risk premium: +1%	(7%)	(7%)
Risk premium: -1%	+6%	+8%
MCCSR: from 150% to 175%	(4%)	(4%)
Tax rate: -1%	+1%	+1%
Mortality improvement: none	(5%)	(5%)
Economic assumptions: +1%	+3%	+4%

## Sensitivity Analysis (cont.)

### Impact on Embedded Value of New Sales

	2003	2004
Risk premium: +1%	(20%)	(18%)
Risk premium: -1%	+22%	+26%
MCCSR: from 150% to 175%	(10%)	(7%)

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## Industrial Alliance *Embedded Value as at December 31, 2004*



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INSURANCE AND FINANCIAL SERVICES INC.

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