

# Shareholders' Report



Third Quarter 2004

Management's Discussion and Analysis of Results of Operations and Financial Position for the Nine-Month Period Ending September 30, 2004

## **INDUSTRIAL ALLIANCE CONTINUES ITS MOMENTUM: INCREASE OF 20% IN PREMIUM INCOME AND 18% IN NET INCOME IN THE THIRD QUARTER 2004**

### **The return on equity reaches 15.3%**

Industrial Alliance Insurance and Financial Services Inc. set another quarterly record, with shareholder net income of \$42.8 million in the third quarter of 2004, an 18% increase over the same period last year. This income translates into diluted earnings per share of \$1.07, up \$0.15 compared to the third quarter of 2003, and an annualized quarterly return on equity of 15.3% (14.8% in the third quarter of 2003), which is above the Company's 13% to 15% target range. All sectors obtained good profits, particularly Group Insurance, which recorded exceptional experience gains.

In terms of business growth, sales are up, and in many cases sharply, in almost all lines of business. Sales for the quarter are higher than the same period last year in Individual Insurance (+17%), Individual Annuities (+36%), Group Insurance Employee Plans (+75%) and Group Pensions (+52%). The growth of sales and a good persistency rate on in-force business pushed total premiums to \$659.1 million for the third quarter, a 20% increase over the same period in 2003. Premiums are up in all sectors, particularly the two wealth management sectors.

"These results once again confirm the Company's ability to outdo itself in an increasingly competitive environment," stated Yvon Charest, President and Chief Executive Officer. "The Company quietly continues to make strides by taking advantage of the consolidation in the industry. All sectors obtained good results this quarter. Sales are excellent, profitability exceeds our target range, our capitalization is still above our objective and the already excellent quality of our investments has improved once again. The key to our success lies in our strong financial discipline, our prudent management philosophy and, perhaps above all, the excellent rapport that we maintain with our various distribution networks."



IN LINE WITH YOUR LIFE®

HIGHLIGHTS						
(Millions of dollars, unless otherwise indicated)	Third quarter			Year to date as at September 30		
	2003	2004	Variation	2003	2004	Variation
Net income	36.3	42.8	18%	99.4	119.3	20%
Earnings per share (diluted)	\$0.92	\$1.07	\$0.15	\$2.53	\$3.00	\$0.47
Return on equity (ROE)						
Quarter annualized	14.8%	15.3%	--	--	--	--
Last twelve months	--	--	--	14.1%	14.5%	--
Insurance and annuity premiums	549.8	659.1	20%	1,921.1	2,118.1	10%
Excluding the NBT transfer <sup>(1)</sup>	--	--	--	1,733.6	2,118.1	22%
	<b>September 30, 2003</b>	<b>December 31, 2003</b>		<b>June 30, 2004</b>	<b>September 30, 2004</b>	
Assets under management/administration	18,578.3	19,573.5		24,721.2	25,533.0	
Solvency ratio	214%	221%		227%	229%	

### Analysis of Income by Line of Business

All lines of business experienced a solid quarter in terms of profitability. All lines obtained one of their highest incomes to date on a quarterly basis, and for the year to date, they all achieved income growth compared to the same period last year.

*Group Insurance* – It was the Group Insurance sector that pushed the Company's profit to a new high this quarter. Group Insurance obtained a profit of \$11.2 million for the third quarter, almost double last year's already more than satisfactory result. This profit was made possible by very strong experience gains (for a third consecutive quarter), with most types of coverage obtaining excellent claims ratios. However, results can fluctuate quite a bit from one quarter to another, as is evidenced by the volatility of results over the last nine quarters.

*Individual Annuities* – After a string of poor quarters in 2002 and the first quarter of 2003, the Individual Annuities sector recorded excellent results for a sixth straight quarter, with net income of \$8.4 million, an 18% increase over the same period last year. This result reflects the strength of individual annuity sales and the significant stock market recovery over the last couple of years.

*Individual Insurance* – Profits in the Individual Insurance sector remained relatively stable at \$19.4 million, similar to the results for the last four quarters. This result comes despite the fact that the new business strain is very high (up 31% over the same period last year), reflecting the strong increase in Universal Life policy sales during the quarter (+26%).

*Group Pensions* – The Group Pensions sector had another good quarter, with income of \$3.8 million. Although this result is lower than last year, when experience gains were particularly high, it is similar to the results for the last three quarters and is in line with the Company's expectations.

INCOME BY LINE OF BUSINESS							
(\$Million)	Third quarter			Year to date as at September 30			
	2003	2004	Variation	2003	2003	2004	Variation vs. 2003 adjusted
					Adjusted <sup>(2)</sup>		
Individual Insurance	18.4	19.4	5%	53.3	55.9	57.2	2%
Individual Annuities	7.1	8.4	18%	21.0	20.0	25.4	27%
Group Insurance	6.0	11.2	87%	14.1	13.0	25.6	97%
Group Pensions	4.8	3.8	(21%)	11.0	10.5	11.1	6%
Total	36.3	42.8	18%	99.4	99.4	119.3	20%

### Analysis of Income by Source of Earnings

*Expected profit from in-force* – The expected profit on in-force business is \$59.2 million for the third quarter, an 18% increase over the same quarter last year. This increase results from the sustained and profitable growth of in-force business, as well as the Company's strong discipline in terms of pricing. The Company believes that low double digit growth is sustainable in the short term.

*Experience gains (losses)* – Experience gains amounted to \$6.6 million for the quarter, much higher than those of last year and the last quarter. Most of the experience gains come from excellent mortality and morbidity results in the Group Insurance sector. Experience gains in the Individual Insurance sector were stable and have held steady at almost zero for the last four quarters, after several quarters of extremely favourable mortality results. The wealth management sectors recorded slight experience losses due to poorer than expected mortality results for insured annuities.

*Gain (strain) on sales* – At \$21.7 million for the third quarter, the new business strain is 27% higher than the same period in 2003. This increase is almost entirely attributable to the Individual Insurance sector, where sales of Universal Life insurance policies increased by 26% during the quarter.

*Income on capital* – Income on capital totalled \$17.6 million in the third quarter, an increase of 5% compared to the previous quarter and 22% compared to the third quarter of 2003. The main reasons behind this increase are lower costs related to debentures, growing capital base and a non-recurrent recovery on a mortgage loan in default. This recovery resulted in a \$1.4 million gain before taxes, \$1.1 million of which is recorded as income on capital and \$0.3 million as experience gains.

*Income taxes* – At 30.6%, the effective tax rate is the same as the previous quarter, which is consistent with management's expectations of around 30% in the short term.

After an excellent first two quarters, the outstanding third quarter results add up to shareholder net income of \$119.3 million for the first nine months, a 20% increase compared to the net income for the same period last year. The return on equity is 14.5% for the last twelve months.

SOURCES OF EARNINGS					
(\$Million)	Third quarter		Year to date as at September 30		
	2003	2004	2003	2003	2004
Operating income				Adjusted <sup>(2)</sup>	
Expected profit from in-force	50.1	59.2	148.5	148.5	171.1
Experience gains (losses)	4.0	6.6	11.5	11.5	16.5
Gain (strain) on sales	(17.1)	(21.7)	(51.5)	(51.5)	(61.5)
Changes in assumptions	0.0	0.0	(8.2)	0.0	0.0
Total	37.0	44.1	100.3	108.5	126.1
Income on capital	14.4	17.6	37.6	37.6	47.3
Other income	0.0	0.0	7.1	(1.6)	0.0
Income taxes	(15.1)	(18.9)	(45.6)	(45.1)	(54.1)
Net income	36.3	42.8	99.4	99.4	119.3

### Business Growth

The Company had one of its best quarters in terms of business growth. Sales were up, and in many cases sharply, in almost all lines of business.

The growth of sales and the good persistency rate of in-force business pushed total premiums to \$659.1 million for the third quarter, a 20% increase over the same period last year. Premiums are up in all sectors, particularly the two wealth management sectors (Individual Annuities and Group Pensions). Premiums for the year to date total \$2.1 billion, which is 10% higher than last year (22% if the special transfer of the second block of business from National Bank Trust in the first quarter of 2003 is excluded).

<b>BUSINESS GROWTH</b>				
	<b>Third quarter</b>		<b>Year to date as at September 30</b>	
	<b>2004</b>	<b>Variation vs. 2003</b>	<b>2004</b>	<b>Variation vs. 2003</b>
	(\$Million)	(%)	(\$Million)	(%)
Insurance and annuity premiums	659.1	20%	2,118.1	10%
Excluding the NBT transfer in 2003 <sup>(1)</sup>	--	--	2,118.1	22%
Sales <sup>(3)</sup>				
Individual Insurance	35.6	17%	100.3	9%
Individual Annuities	184.2	36%	709.3	42%
Group Insurance				
Employee Plans	14.9	75%	47.7	9%
Creditor Insurance	37.5	(7%)	100.2	0%
Special Markets Group (SMG)	18.6	4%	56.5	9%
Group Pensions	107.8	52%	332.4	(21%)
Excluding the NBT transfer in 2003 <sup>(1)</sup>	--	--	332.4	43%
Assets under management/administration	25,533.0	37%	--	--

Following are comments on the sales performance of each sector for the third quarter of 2004.

*Individual Insurance* – The Individual Insurance sector had one of its best quarters in three years. Sales grew 17% in the third quarter to reach \$35.6 million. This is the fifth consecutive quarter where sales for this sector are higher than the sales for the corresponding quarters the previous year. Sales are mainly up in the National Accounts network (+43% in the third quarter) and for our main product, the Universal Life policy (+26%), for which the Company is the leader in Canada. In terms of individual life insurance sales, the Company was ranked third in Canada for the first six months of the year, with 12.6% of the market.

*Individual Annuities* – Sales continue to be very good in the Individual Annuities sector, in spite of the relative market stagnation that has prevailed for the last six months. Sales grew 36% in the third quarter, totalling \$184.2 million. This is the fifth straight quarter where sales have grown more than 20% compared to the corresponding quarter the previous year. Sales are up for all distribution networks and all product categories, particularly segregated funds. Segregated fund sales are up 50% for the third quarter and 63% for the first nine months, a sure sign that investors have not lost confidence in the stock markets. Net segregated fund sales were positive once again, totalling \$280.7 million for the first nine months of the year, ranking the Company fourth in Canada, with a 13.9% market share.

*Group Insurance: Employee Plans* – As with the Individual Insurance and Annuities sectors, third quarter sales for the Group Insurance Employee Plans sector were excellent. Sales totalled \$14.9 million, 75% higher than the same period last year. Just over half of the sales were made outside of Quebec. Sales for the quarter were sufficient to erase the accumulated shortfall since the beginning of the year, so that sales totalled \$47.7 million for the first nine months of the year, 9% higher than the same period in 2003.

*Group Creditor Insurance* – The decrease in car sales has finally impacted creditor insurance sales, which were down 7% during the quarter compared to the same period last year (the Creditor Insurance sector, which primarily distributes its products through car dealers, relies heavily on the automobile market). Nevertheless, sales totalled \$100.2 million after nine months, the same level as the corresponding period in 2003. The Company is the leader in Canada in the group creditor insurance market among automobile dealers, with over 40% of the market.

*Group Insurance: Special Markets Group* – Special Markets Group (SMG) continues to take advantage of past years' strong sales, with third quarter premium growing 4% compared to the same quarter last year, to reach \$18.6 million. SMG specializes in certain niche group insurance markets that are not well served by traditional group insurance providers.

*Group Pensions* – This sector had a third consecutive excellent quarter, with sales growing 52% compared to the same period last year, to total \$107.8 million. Sales are up compared to last year in both accumulation products and insured annuities.

*Added value of sales* – The strong growth of sales boosted the added value of sales by 30% during the quarter, to \$15.6 million (\$0.39 per common share). All sectors recorded growth in the added value of sales. This is the fourth consecutive quarter where the added value of sales is up compared to the same quarter the previous year.

#### **Assets Under Management and Under Administration**

In spite of the recent stock market stagnation, strong business growth has increased assets under management and under administration to \$25.5 billion as at September 30, 2004, a 3% increase for the quarter. The growth rate has been much more impressive since the beginning of the year (+30%), due to the purchase of a majority position in FundEX Investments (\$4.0 billion in assets as at September 30, 2004) and the rapid growth of funds under administration at Industrial Alliance Securities (which increased from \$450 million as at December 31, 2003 to \$806 million as at September 30, 2004).

#### **Solvency and Capitalization**

The solvency ratio was 229% as at September 30, 2004, 2 percentage points higher than at the end of the previous quarter and 8 points higher than at the end of 2003. It is still above the Company's 175% to 200% target range.

#### **Quality of Investments**

The quality of investments – which was already excellent – improved even more during the third quarter following the settlement of a mortgage loan in default. This mortgage loan represented about 50% of the mortgage loans in arrears, and the settlement of this loan considerably improved the delinquency rate of the mortgage loans portfolio, which decreased from 0.64% as at June 30, 2004 to 0.37% as at September 30, 2004. The settlement of this loan also improved several overall quality of investment indices. Hence:

- gross impaired investments decreased from \$55.6 million as at June 30, 2004 (\$15.5 million net of provisions) to \$48.5 million as at September 30, 2004 (\$9.2 million net of provisions);
- net impaired investments decreased from 0.15% of total investments as at June 30, 2004 to 0.09% as at September 30, 2004; and
- provisions increased from 72.1% of gross impaired investments as at June 30, 2004 to 81.0% as at September 30, 2004.

There was no significant change in the quality of the bond portfolio during the quarter. No new bonds are in default and bonds rated BB and lower remained stable at 0.09% of the portfolio as at September 30, 2004 (0.13% as at December 31, 2003 and 0.09% as at June 30, 2004). Bonds rated BB and lower represent just \$5.0 million of a portfolio of almost \$6 billion.

The occupancy rate of the Company's real estate portfolio remained stable during the third quarter, at 96.9% (93.9% as at December 31, 2003 and 96.7% as at June 30, 2004).

QUALITY OF INVESTMENTS				
	Sept. 30, 2003	Dec. 31, 2003	June 30, 2004	Sept. 30, 2004
<b>Overall quality indices</b>				
Net impaired investments	\$20.4 M	\$19.8 M	\$15.5 M	\$9.2 M
Net impaired investments as a % of total investments	0.21%	0.20%	0.15%	0.09%
Provisions for losses	\$41.2 M	\$40.7 M	\$40.1 M	\$39.3 M
Provisions as a % of gross impaired investments	66.9%	67.3%	72.1%	81.0%
<b>Bonds – Value of the portfolio</b>				
Rated BB and lower	0.09%	0.13%	0.09%	0.09%
Delinquency rate	0.03%	0.03%	0.02%	0.02%
<b>Mortgage Loans – Value of the portfolio</b>				
Delinquency rate	0.87%	0.86%	0.64%	0.37%
Proportion of impaired loans that are insured	42.6%	42.2%	42.0%	76.7%
<b>Stocks and Market Indices – Value of the portfolio</b>				
Market/book value ratio, as a %	100.7%	102.9%	103.2%	103.1%
<b>Real Estate – Value of the portfolio</b>				
Market/book value ratio, as a %	104.4%	104.9%	104.4%	104.3%
Occupancy rate	92.7%	93.9%	96.7%	96.9%

#### Declaration of Dividend

The Board of Directors has declared the payment of a quarterly dividend of \$0.22 per common share. The dividend is payable in cash on December 15, 2004, to the shareholders of record as at November 19, 2004. The Company had increased its dividend by \$0.03 per common share (or 16%) last quarter.

#### Notes

- Premiums include the amounts invested in the Company's general funds and segregated funds. Note that in the first quarter of 2003, the Company's Group Pensions sector received a special one-time transfer of \$187.5 million under an agreement with National Bank Trust (NBT).
- The second quarter 2003 data have been adjusted (and, consequently, the year to date data for 2003) to exclude the impact of the government assistance program for major investment projects and the equivalent increase in reserves (\$6.0 million after taxes). These adjustments had no impact on the net income, but somewhat modified the results of the various lines of business.
- Sales are defined as follows for each sector: Individual Insurance and Group Insurance Employee Plans: first year annualized premiums; Individual Annuities, Group Pensions and Special Markets Group (SMG): accounting premiums; Group Creditor Insurance: gross premiums (accounting premiums before reinsurance).

**CONSOLIDATED FINANCIAL STATEMENTS****As at June 30, 2004 and 2003**

Consolidated Income Statements .....	8
Consolidated Balance Sheets .....	9
Consolidated Participating Policyholders' Account.....	10
Consolidated Contributed Surplus.....	10
Consolidated Shareholders' Retained Earnings.....	10
Consolidated Cash Flows Statements .....	11
Consolidated Financial Statements of Segregated Funds.....	12
Notes to Consolidated Financial Statements.....	13

Please note that the consolidated financial statements have not been reviewed by external auditors.

INDUSTRIAL ALLIANCE INSURANCE AND FINANCIAL SERVICES INC.  
CONSOLIDATED INCOME STATEMENTS  
(in millions of dollars, unless otherwise indicated)

	Quarters ended September 30		Nine months ended September 30	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
	\$	\$	\$	\$
	(unaudited)			
<b>REVENUES</b>				
Premiums (note 9)	659.1	549.8	2,118.1	1,921.1
Net investment income	140.1	174.4	489.2	463.9
Fees and other revenues	36.2	26.7	105.8	77.0
	<b>835.4</b>	750.9	<b>2,713.1</b>	2,462.0
<b>POLICY BENEFITS AND EXPENSES</b>				
Change in provisions for future policy benefits	97.9	135.9	334.2	359.3
Payments to policyholders and beneficiaries	315.0	292.5	964.7	903.8
Net transfer to segregated funds	183.4	109.2	700.7	568.4
Dividends, experience refunds and interest on amounts on deposit	8.3	6.3	32.2	28.1
Commissions	90.5	79.4	266.8	235.4
Premium and other taxes	11.3	10.8	34.6	32.2
General expenses	62.1	58.6	191.1	173.8
Net financing expenses	4.2	4.9	12.3	11.1
Minority interest	(0.1)	---	(0.2)	---
	<b>772.6</b>	697.6	<b>2,536.4</b>	2,312.1
<b>INCOME BEFORE INCOME TAXES</b>	<b>62.8</b>	53.3	<b>176.7</b>	149.9
Income taxes	(19.1)	(16.4)	(54.6)	(47.9)
<b>NET INCOME</b>	<b>43.7</b>	36.9	<b>122.1</b>	102.0
<b>Net income attributable to participating policyholders</b>	<b>0.9</b>	0.6	<b>2.8</b>	2.6
<b>Net income attributable to shareholders</b>	<b>42.8</b>	36.3	<b>119.3</b>	99.4
<b>Earnings per share</b> (in dollars) (note 6)				
basic	<b>1.08</b>	0.92	<b>3.01</b>	2.56
diluted	<b>1.07</b>	0.92	<b>3.00</b>	2.53

INDUSTRIAL ALLIANCE INSURANCE AND FINANCIAL SERVICES INC.  
CONSOLIDATED BALANCE SHEETS  
(in millions of dollars)

	As at <b>September 30</b> <b>2004</b> \$ (unaudited)	As at December 31 2003 \$	As at September 30 2003 \$ (unaudited)
<b>ASSETS</b>			
<b>Invested assets</b>			
Bonds	5,953.3	5,527.9	5,377.1
Mortgages	2,501.4	2,490.4	2,469.2
Stocks	1,017.0	930.3	873.7
Real estate	444.6	425.7	426.8
Policy loans	168.4	154.9	165.7
Cash and cash equivalents	266.9	280.1	345.4
Short-term investments	34.8	24.7	25.4
Other invested assets	18.4	91.5	75.8
	<b>10,404.8</b>	9,925.5	9,759.1
<b>Goodwill</b>	<b>61.4</b>	56.5	52.1
<b>Other assets</b>	<b>395.7</b>	325.6	380.3
	<b>457.1</b>	382.1	432.4
<b>TOTAL GENERAL FUND ASSETS</b>	<b>10,861.9</b>	10,307.6	10,191.5
<b>SEGREGATED FUNDS NET ASSETS</b>	<b>5,549.2</b>	5,042.2	4,706.9
<b>LIABILITIES</b>			
<b>Policy liabilities</b>			
Provisions for future policy benefits	8,002.5	7,668.3	7,574.6
Provisions for dividends to policyholders and experience rating refunds	58.2	44.4	34.3
Benefits payable and provision for unreported claims	132.4	136.1	131.9
Policyholders' amounts on deposit	156.0	145.6	150.8
	<b>8,349.1</b>	7,994.4	7,891.6
<b>Other liabilities</b>	<b>633.8</b>	579.3	576.2
<b>Deferred net realized gains</b>	<b>374.7</b>	347.2	310.4
<b>Subordinated debentures (note 3)</b>	<b>150.0</b>	135.0	185.0
<b>Other debts (note 2)</b>	<b>150.0</b>	150.0	150.0
<b>Participating policyholders' account</b>	<b>67.6</b>	64.8	62.1
<b>EQUITY</b>			
<b>Shareholders' equity</b>			
Share capital (note 5)	457.4	457.0	457.0
Contributed surplus	8.8	6.5	5.6
Retained earnings	673.0	575.9	547.8
Currency translation account	(2.5)	(2.5)	5.8
	<b>1,136.7</b>	1,036.9	1,016.2
<b>TOTAL GENERAL FUND LIABILITIES AND EQUITY</b>	<b>10,861.9</b>	10,307.6	10,191.5
<b>SEGREGATED FUNDS LIABILITIES</b>	<b>5,549.2</b>	5,042.2	4,706.9

INDUSTRIAL ALLIANCE INSURANCE AND FINANCIAL SERVICES INC.

CONSOLIDATED PARTICIPATING POLICYHOLDERS' ACCOUNT  
(in millions of dollars)

	Nine months ended September 30	
	<u>2004</u>	<u>2003</u>
	\$	\$
	(unaudited)	
Participating policyholders' account at beginning of period	64.8	59.5
Income for the period	6.4	6.5
Dividends	(3.4)	(3.4)
Transfer to the shareholders' account	(0.2)	(0.5)
<u>Net income attributable to participating policyholders</u>	<u>2.8</u>	<u>2.6</u>
<b><u>Participating policyholders' account at end of period</u></b>	<b><u>67.6</u></b>	<b><u>62.1</u></b>

CONSOLIDATED CONTRIBUTED SURPLUS  
(in millions of dollars)

	Nine months ended September 30	
	<u>2004</u>	<u>2003</u>
	\$	\$
	(unaudited)	
Contributed surplus at beginning of period	6.5	3.3
Current period contribution for the stock option plan	2.5	2.3
Stock option exercised	(0.2)	---
<u>Contributed surplus at end of period</u>	<u>8.8</u>	<u>5.6</u>

CONSOLIDATED SHAREHOLDERS' RETAINED EARNINGS  
(in millions of dollars)

	Nine months ended September 30	
	<u>2004</u>	<u>2003</u>
	\$	\$
	(unaudited)	
Retained earnings at beginning of period	575.9	470.2
Net income attributable to shareholders	119.3	99.4
Issue costs of IATS, net of taxes	---	(1.8)
Cancellation of common shares issued at demutualization (note 5)	1.7	---
Dividends	(23.9)	(20.0)
<b><u>Retained earnings at end of period</u></b>	<b><u>673.0</u></b>	<b><u>547.8</u></b>

INDUSTRIAL ALLIANCE INSURANCE AND FINANCIAL SERVICES INC.  
CONSOLIDATED CASH FLOWS STATEMENTS  
(in millions of dollars)

	Quarters ended September 30		Nine months ended September 30	
	2004	2003	2004	2003
	\$	\$	\$	\$
			(unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income	43.7	36.9	122.1	102.0
Items not affecting cash and cash equivalents:				
Change in provision for future policy benefits	97.9	138.3	334.2	578.2
Share of net results of significantly influenced entity	(0.1)	0.3	(0.7)	(0.2)
Amortization of realized and unrealized gains (losses)	28.0	(7.0)	(24.2)	(15.4)
Amortization of premiums and discounts	(46.1)	(33.2)	(111.2)	(98.1)
Future income taxes	8.3	13.5	29.0	20.8
Stock option plan	1.0	0.7	2.5	2.3
Other	4.5	1.9	10.8	6.7
	137.2	151.4	362.5	596.3
Other changes in other assets and liabilities	5.6	3.7	38.9	(23.6)
<b>Cash flows from operating activities</b>	<b>142.8</b>	<b>155.1</b>	<b>401.4</b>	<b>572.7</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Sales, maturities and repayments of:				
Bonds	313.5	485.1	1,130.9	859.7
Mortgages	156.3	142.3	565.5	422.5
Stocks	51.1	63.7	222.2	283.4
Real estate	0.8	1.7	15.9	9.9
Policy loans	17.0	14.1	52.1	44.6
Short-term investments and other invested assets	22.7	47.0	94.4	111.8
	561.4	753.9	2,081.0	1 731.9
Purchases of:				
Bonds	(347.1)	(696.1)	(1,398.3)	(1,447.3)
Mortgages	(161.4)	(148.4)	(570.9)	(362.7)
Stocks	(98.3)	(105.5)	(292.4)	(424.0)
Real estate	(0.2)	(0.4)	(31.5)	(0.7)
Policy loans	(9.0)	(8.0)	(63.7)	(55.3)
Short-term investments and other invested assets	(39.9)	(45.3)	(126.6)	(101.6)
Acquisition, net of cash and short term	---	---	(4.1)	---
	(655.9)	(1,003.7)	(2,487.5)	(2,391.6)
<b>Cash flows from investing activities</b>	<b>(94.5)</b>	<b>(249.8)</b>	<b>(406.5)</b>	<b>(659.7)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Issue of common shares	0.5	---	2.2	---
Issue of debenture	---	---	150.0	---
Redemption of debenture	---	---	(135.0)	---
Issue of other debts	---	150.0	---	150.0
Issuance cost of other debts	---	(1.8)	---	(1.8)
Dividends paid on preferred shares	---	(0.1)	(0.1)	(0.3)
Dividends paid on common shares	(8.8)	(6.6)	(23.8)	(19.7)
Decrease in debt	(0.3)	(0.3)	(1.4)	(0.9)
<b>Cash flows from financing activities</b>	<b>(8.6)</b>	<b>141.2</b>	<b>(8.1)</b>	<b>127.3</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>39.7</b>	<b>46.5</b>	<b>(13.2)</b>	<b>40.3</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING</b>	<b>227.2</b>	<b>298.9</b>	<b>280.1</b>	<b>305.1</b>
<b>CASH AND CASH EQUIVALENTS AT END</b>	<b>266.9</b>	<b>345.4</b>	<b>266.9</b>	<b>345.4</b>

**Supplementary Information**

Interest paid	5.7	3.4	17.9	12.0
Income taxes paid	5.6	13.2	28.8	44.4

INDUSTRIAL ALLIANCE INSURANCE AND FINANCIAL SERVICES INC.  
CONSOLIDATED FINANCIAL STATEMENTS OF SEGREGATED FUNDS

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS  
(in millions of dollars)

	<b>Nine months ended September 30 2004</b>	Twelve months ended December 31 2003	Nine months ended September 30 2003
	\$	\$	\$
	(unaudited)		(unaudited)
<b>Net assets at beginning of period</b>	<b>5,042.2</b>	4,173.5	4,173.5
Additions:			
Amounts received from policyholders	808.8	982.9	770.5
Investment income	82.6	139.0	94.7
Net realized gain (loss)	61.9	(28.6)	(31.6)
Net increase in market value	91.3	534.3	251.6
	<b>6,086.8</b>	5,801.1	5,258.7
Deductions:			
Amounts withdrawn by policyholders	455.3	667.2	484.6
Operating expenses	82.3	91.7	67.2
	<b>537.6</b>	758.9	551.8
<b>Net assets at end of period</b>	<b>5,549.2</b>	5,042.2	4,706.9

CONSOLIDATED STATEMENTS OF NET ASSETS  
(in millions of dollars)

	<b>As at September 30 2004</b>	As at December 31 2003	As at September 30 2003
	\$	\$	\$
	(unaudited)		(unaudited)
Assets			
Bonds	1,549.0	1,421.5	1,401.1
Mortgages and mortgage back securities	42.3	49.8	47.5
Stocks	1,610.8	1,500.8	1,373.1
Units	1,977.3	1,725.5	1,549.8
Cash and short-term investments	350.3	331.8	320.2
Other assets	39.9	23.3	35.3
	<b>5,569.6</b>	5,052.7	4,727.0
Liabilities			
Accounts payable	20.4	10.5	20.1
<b>Net assets</b>	<b>5,549.2</b>	5,042.2	4,706.9

## 1- ACCOUNTING POLICIES

These interim Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2003, as set out in the 2003 Annual Report. The significant accounting policies followed in the preparation of these interim Consolidated Financial Statements are consistent with those found in the 2003 Annual Report, except as described in note 2 below.

## 2- CHANGE IN ACCOUNTING POLICIES

### **Impact of a proposed amendment to accounting standards—financial instruments disclosure and presentation**

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

### **Hedging Relationships**

The Company adopted Hedging Relationships, CICA Handbook Accounting Guideline 13, effective January 1, 2004. This Accounting Guideline requires that all conditions with respect to identification, documentation, designation and effectiveness of hedges be satisfied before companies choose to use hedge accounting. There is no impact on these interim financial statements because the Company has already applied this Guideline and is in compliance with all the requirements.

### **Generally Accepted Accounting Principles**

On January 1, 2004, the Company adopted Generally Accepted Accounting Principles (GAAP), CICA section 1100. This section establishes the standard for financial reporting in accordance with GAAP, and provides guidance on sources to consult when selecting accounting policies and determining appropriate disclosures. There is no impact on these interim consolidated financial statements but the Company is continuing to evaluate the impact of this section.

## 3- SUBORDINATED DEBENTURES

### **Subordinated debenture Series 1**

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

### **Subordinated debenture Series 3**

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

### **Subordinated debenture**

On March 11, 2004, the Company issued a new subordinated debenture of \$150.0, with a maturity of 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 prior 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, on each quarterly interest payment date, at the par value, with the prior approval of the Autorité des marchés financiers.

INDUSTRIAL ALLIANCE INSURANCE AND FINANCIAL SERVICES INC.  
Notes to Consolidated Financial Statements  
Nine months ended September 30, 2004 and 2003 (unaudited)  
(in millions of dollars, unless otherwise indicated)

**4- ACQUISITION OF BUSINESS**

On June 30, 2004 Industrial Alliance Securities Inc. purchased 100% of the common shares of Lynch Investments Limited, a securities broker, for a consideration of \$0.4 in cash. The transaction added \$65.9 of assets under administration.

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., 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. The purchase price with respect to the future transaction for the remaining 24.75% has been set at an amount per share plus adjustment tied to the net growth in the number of brokers under contract. This acquisition added approximately \$3.9 billion of assets under administration.

	<b>2004</b>		
	<u>Lynch Investments Limited</u>	<u>Services de Gestion Évolution FM inc.</u>	<u>FundEX</u>
	\$	\$	\$
<b>Assets acquired</b>			
Cash and cash equivalents	---	<b>0.1</b>	<b>0.9</b>
Other assets	<b>0.1</b>	---	<b>3.5</b>
	<b>0.1</b>	<b>0.1</b>	<b>4.4</b>
<b>Liabilities assumed</b>			
Other liabilities	<b>0.1</b>	<b>0.1</b>	<b>3.3</b>
Subordinated debt	---	---	<b>0.9</b>
	<b>0.1</b>	<b>0.1</b>	<b>4.2</b>
Net assets acquired	---	---	<b>0.2</b>
Minority interests	---	---	--- *
Goodwill	<b>0.4</b>	<b>0.1</b>	<b>4.4</b>
<b>Purchase price</b>	<b>0.4</b>	<b>0.1</b>	<b>4.6</b>

\* Less than \$0.1

## 5- 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 converting the series 1 preferred shares, redeemable at the option of the Company at the issuing value increased by a 5.26% premium under certain conditions, including the necessity to proceed with the issue of series 3 preferred shares.

3,000,000 Series 3 preferred shares, redeemable after 5 years at their issue value subject to approval by the Autorité des marchés financiers or convertible into common shares at their market value.

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

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

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

INDUSTRIAL ALLIANCE INSURANCE AND FINANCIAL SERVICES INC.  
Notes to Consolidated Financial Statements  
Nine months ended September 30, 2004 and 2003 (unaudited)  
(in millions of dollars, unless otherwise indicated)

**5- SHARE CAPITAL** (continued)

	2004		2003	
	Number of shares (in thousands)	Amount \$	Number of shares (in thousands)	Amount \$
<b>Common shares</b>				
Balance at beginning	39,345.6	438.5	37,648.2	382.2
Shares issued on exercise of stock options	44.2	1.7	---	---
Shares issued on acquisition of business	10.0	0.4	---	---
Shares issued on conversion of preferred shares – Series 1	444.6	18.7	1,697.4	56.3
Cancellation of common shares issued at demutualization	(108.2)	(1.7)		
Balance at end	39,736.2	457.6	39,345.6	438.5
<b>Shares held in treasury</b>	<b>(10.8)</b>	<b>(0.2)</b>	<b>(10.8)</b>	<b>(0.2)</b>
	<u>39,725.4</u>	<u>457.4</u>	<u>39,334.8</u>	<u>438.3</u>
<b>Preferred shares - Series 1</b>				
Balance at beginning	750.0	18.7	3,000.0	75.0
Shares converted into common shares	(750.0)	(18.7)	(2,250.0)	(56.3)
Balance at end	---	---	750.0	18.7
<b>Preferred shares - Series A</b>				
Balance at beginning	4.0	0.1	---	---
Shares issued	---	---	4.0	0.1
Balance at end	4.0	0.1	4.0	0.1
<b>Shares held in treasury</b>	<b>(4.0)</b>	<b>(0.1)</b>	<b>(4.0)</b>	<b>(0.1)</b>
	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>
<b>Total share capital</b>		<u>457.4</u>		<u>457.0</u>

The number of outstanding stock options (in thousands) as at September 30, 2004 is 1,317.8 (1,145.8 in 2003).

On July 27, 2004, following Board approval, the Company cancelled the outstanding common shares issued at the time of the 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, being the balance of the Series 1 preferred shares, into 444,587 common shares, for an amount of \$18.7, that were held by Capital d'Amérique CDPQ inc.

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





INDUSTRIAL ALLIANCE INSURANCE AND FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

Nine months ended September 30, 2004 and 2003 (unaudited)

(in millions of dollars, unless otherwise indicated)

**8- SEGMENTED INFORMATION**

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

**Segmented income statements**

	Individual		Group		Other activities*	Total
	Life and Health	Annuities	Life and Health	Pensions		
<b>Quarter ended September 30, 2004</b> (unaudited)	\$	\$	\$	\$	\$	\$
<b>Revenues</b>						
Premiums	182.4	184.2	162.7	107.8	22.0	659.1
Net investment income	47.8	32.3	15.9	43.7	0.4	140.1
Fees and other revenues	0.8	21.3	2.7	3.4	8.0	36.2
	<b>231.0</b>	<b>237.8</b>	<b>181.3</b>	<b>154.9</b>	<b>30.4</b>	<b>835.4</b>
<b>Operating expenses</b>						
Cost of commitments to policyholders	123.0	59.2	116.1	108.2	14.7	421.2
Net transfer to segregated funds	---	146.1	---	37.3	---	183.4
Commissions, general and other expenses	81.0	20.7	48.8	4.2	13.3	168.0
	<b>204.0</b>	<b>226.0</b>	<b>164.9</b>	<b>149.7</b>	<b>28.0</b>	<b>772.6</b>
Income before income taxes	27.0	11.8	16.4	5.2	2.4	62.8
Income taxes	(7.9)	(3.8)	(5.3)	(1.3)	(0.8)	(19.1)
Net income before allocation of other activities	19.1	8.0	11.1	3.9	1.6	43.7
Allocation of other activities	0.9	0.4	0.1	0.2	(1.6)	---
<b>Net income for the period</b>	<b>20.0</b>	<b>8.4</b>	<b>11.2</b>	<b>4.1</b>	<b>---</b>	<b>43.7</b>
Attributable to shareholders	19.4	8.4	11.2	3.8	---	42.8
Attributable to participating policyholders' account	0.6	---	---	0.3	---	0.9

	Individual		Group		Other activities*	Total
	Life and Health	Annuities	Life and Health	Pensions		
<b>Quarter ended September 30, 2003</b> (unaudited)	\$	\$	\$	\$	\$	\$
<b>Revenues</b>						
Premiums	168.2	135.4	158.2	71.1	16.9	549.8
Net investment income	79.9	36.4	14.9	43.5	(0.3)	174.4
Fees and other revenues	0.6	17.6	2.9	0.8	4.8	26.7
	<b>248.7</b>	<b>189.4</b>	<b>176.0</b>	<b>115.4</b>	<b>21.4</b>	<b>750.9</b>
<b>Operating expenses</b>						
Cost of commitments to policyholders	148.9	66.8	119.8	88.9	10.3	434.7
Net transfer to segregated funds	---	92.6	---	16.6	---	109.2
Commissions, general and other expenses	73.7	18.9	48.6	4.1	8.4	153.7
	<b>222.6</b>	<b>178.3</b>	<b>168.4</b>	<b>109.6</b>	<b>18.7</b>	<b>697.6</b>
Income before income taxes	26.1	11.1	7.6	5.8	2.7	53.3
Income taxes	(7.9)	(4.2)	(1.8)	(1.4)	(1.1)	(16.4)
Net income before allocation of other activities	18.2	6.9	5.8	4.4	1.6	36.9
Allocation of other activities	0.8	0.3	0.2	0.3	(1.6)	---
<b>Net income for the period</b>	<b>19.0</b>	<b>7.2</b>	<b>6.0</b>	<b>4.7</b>	<b>---</b>	<b>36.9</b>
Attributable to shareholders	18.4	7.1	6.0	4.8	---	36.3
Attributable to participating policyholders' account	0.6	0.1	---	(0.1)	---	0.6

\* Includes other segments and intercompany eliminations.

INDUSTRIAL ALLIANCE INSURANCE AND FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

Nine months ended September 30, 2004 and 2003 (unaudited)

(in millions of dollars, unless otherwise indicated)

**8- SEGMENTED INFORMATION (continued)**

<b>Nine months ended September 30, 2004</b> (unaudited)	<b>Individual</b>		<b>Group</b>		<b>Other activities*</b>	<b>Total</b>
	<b>Life and Health</b>	<b>Annuities</b>	<b>Life and Health</b>	<b>Pensions</b>		
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Revenues</b>						
Premiums	540.9	709.3	474.6	332.4	60.9	2,118.1
Net investment income	209.7	99.9	47.5	130.9	1.2	489.2
Fees and other revenues	2.1	63.2	7.8	9.6	23.1	105.8
	<b>752.7</b>	<b>872.4</b>	<b>529.9</b>	<b>472.9</b>	<b>85.2</b>	<b>2,713.1</b>
<b>Operating expenses</b>						
Cost of commitments to policyholders	433.2	184.4	346.9	324.1	42.5	1,331.1
Net transfer to segregated funds	---	580.9	---	119.8	---	700.7
Commissions, general and other expenses	236.5	70.8	145.3	13.4	38.6	504.6
	<b>669.7</b>	<b>836.1</b>	<b>492.2</b>	<b>457.3</b>	<b>81.1</b>	<b>2,536.4</b>
Income before income taxes	83.0	36.3	37.7	15.6	4.1	176.7
Income taxes	(25.3)	(11.5)	(12.4)	(4.1)	(1.3)	(54.6)
Net income before allocation of other activities	57.7	24.8	25.3	11.5	2.8	122.1
Allocation of other activities	1.5	0.6	0.3	0.4	(2.8)	---
<b>Net income for the period</b>	<b>59.2</b>	<b>25.4</b>	<b>25.6</b>	<b>11.9</b>	<b>---</b>	<b>122.1</b>
Attributable to shareholders	57.2	25.4	25.6	11.1	---	119.3
Attributable to participating policyholders' account	2.0	---	---	0.8	---	2.8

<b>Nine months ended September 30, 2003</b> (unaudited)	<b>Individual</b>		<b>Group</b>		<b>Other activities*</b>	<b>Total</b>
	<b>Life and Health</b>	<b>Annuities</b>	<b>Life and Health</b>	<b>Pensions</b>		
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Revenues</b>						
Premiums	507.0	500.5	446.6	419.9	47.1	1,921.1
Net investment income	192.1	106.5	42.2	124.3	(1.2)	463.9
Fees and other revenues	1.7	51.6	7.9	2.7	13.1	77.0
	<b>700.8</b>	<b>658.6</b>	<b>496.7</b>	<b>546.9</b>	<b>59.0</b>	<b>2,462.0</b>
<b>Operating expenses</b>						
Cost of commitments to policyholders	402.0	244.7	338.7	273.6	32.2	1,291.2
Net transfer to segregated funds	---	323.2	---	245.2	---	568.4
Commissions, general and other expenses	220.0	60.9	137.1	12.8	21.7	452.5
	<b>622.0</b>	<b>628.8</b>	<b>475.8</b>	<b>531.6</b>	<b>53.9</b>	<b>2,312.1</b>
Income before income taxes	78.8	29.8	20.9	15.3	5.1	149.9
Income taxes	(25.1)	(9.3)	(7.1)	(4.3)	(2.1)	(47.9)
Net income before allocation of other activities	53.7	20.5	13.8	11.0	3.0	102.0
Allocation of other activities	1.6	0.6	0.3	0.5	(3.0)	---
<b>Net income for the period</b>	<b>55.3</b>	<b>21.1</b>	<b>14.1</b>	<b>11.5</b>	<b>---</b>	<b>102.0</b>
Attributable to shareholders	53.3	21.0	14.1	11.0	---	99.4
Attributable to participating policyholders' account	2.0	0.1	---	0.5	---	2.6

\* Includes other segments and intercompany eliminations.

INDUSTRIAL ALLIANCE INSURANCE AND FINANCIAL SERVICES INC.  
Notes to Consolidated Financial Statements  
Nine months ended September 30, 2004 and 2003 (unaudited)  
(in millions of dollars, unless otherwise indicated)

**8- SEGMENTED INFORMATION (continued)**

**Segmented assets**

<b>As at September 30, 2004</b> (unaudited)	<b>Individual</b>		<b>Group</b>		<b>Other activities*</b>	<b>Total</b>
	<b>Life and Health</b>	<b>Annuities</b>	<b>Life and Health</b>	<b>Pensions</b>		
	\$	\$	\$	\$	\$	\$
<b>Assets</b>						
Investments	4,665.0	2,094.8	1,046.7	2,434.6	163.7	10,404.8
Goodwill	30.5	---	19.9	---	11.0	61.4
Other assets	125.5	43.3	68.6	59.3	99.0	395.7
<b>Total</b>	<b>4,821.0</b>	<b>2,138.1</b>	<b>1,135.2</b>	<b>2,493.9</b>	<b>273.7</b>	<b>10,861.9</b>

<b>As at December 31, 2003</b> (unaudited)	<b>Individual</b>		<b>Group</b>		<b>Other activities*</b>	<b>Total</b>
	<b>Life and Health</b>	<b>Annuities</b>	<b>Life and Health</b>	<b>Pensions</b>		
	\$	\$	\$	\$	\$	\$
<b>Assets</b>						
Investments	4,299.3	2,092.2	975.1	2,414.1	144.8	9,925.5
Goodwill	30.5	---	19.9	---	6.1	56.5
Other assets	105.7	34.9	56.0	48.5	80.5	325.6
<b>Total</b>	<b>4,435.5</b>	<b>2,127.1</b>	<b>1,051.0</b>	<b>2,462.6</b>	<b>231.4</b>	<b>10,307.6</b>

<b>As at September 30, 2003</b> (unaudited)	<b>Individual</b>		<b>Group</b>		<b>Other activities*</b>	<b>Total</b>
	<b>Life and Health</b>	<b>Annuities</b>	<b>Life and Health</b>	<b>Pensions</b>		
	\$	\$	\$	\$	\$	\$
<b>Assets</b>						
Investments	4,121.6	2,136.9	987.4	2,377.3	135.9	9,759.1
Goodwill	30.5	---	19.9	---	1.7	52.1
Other assets	126.9	40.2	67.0	57.9	88.3	380.3
<b>Total</b>	<b>4,279.0</b>	<b>2,177.1</b>	<b>1,074.3</b>	<b>2,435.2</b>	<b>225.9</b>	<b>10,191.5</b>

\* Includes other segments and intercompany eliminations.

INDUSTRIAL ALLIANCE INSURANCE AND FINANCIAL SERVICES INC.  
Notes to Consolidated Financial Statements  
Nine months ended September 30, 2004 and 2003 (unaudited)  
(in millions of dollars, unless otherwise indicated)

**9- PREMIUMS**

<u>Quarter ended September 30, 2004</u> (unaudited)	Individual		Group		General insurance	Total
	Life and Health	Annuities	Life and Health	Pensions		
	\$	\$	\$	\$	\$	\$
Invested in general fund	182.4	54.4	162.7	33.6	22.0	455.1
Invested in segregated funds	---	129.8	---	74.2	---	204.0
<b>Total</b>	<b>182.4</b>	<b>184.2</b>	<b>162.7</b>	<b>107.8</b>	<b>22.0</b>	<b>659.1</b>

<u>Quarter ended September 30, 2003</u> (unaudited)	Individual		Group		General insurance	Total
	Life and Health	Annuities	Life and Health	Pensions		
	\$	\$	\$	\$	\$	\$
Invested in general fund	168.2	48.8	158.2	29.1	16.9	421.2
Invested in segregated funds	---	86.6	---	42.0	---	128.6
<b>Total</b>	<b>168.2</b>	<b>135.4</b>	<b>158.2</b>	<b>71.1</b>	<b>16.9</b>	<b>549.8</b>

<u>Nine months ended September 30, 2004</u> (unaudited)	Individual		Group		General insurance	Total
	Life and Health	Annuities	Life and Health	Pensions		
	\$	\$	\$	\$	\$	\$
Invested in general fund	540.9	184.4	474.6	115.5	60.9	1,376.3
Invested in segregated funds	---	524.9	---	216.9	---	741.8
<b>Total</b>	<b>540.9</b>	<b>709.3</b>	<b>474.6</b>	<b>332.4</b>	<b>60.9</b>	<b>2,118.1</b>

<u>Nine months ended September 30, 2003</u> (unaudited)	Individual		Group		General insurance	Total
	Life and Health	Annuities	Life and Health	Pensions		
	\$	\$	\$	\$	\$	\$
Invested in general fund	507.0	179.4	446.6	81.1	47.1	1,261.2
Invested in segregated funds	---	321.1	---	338.8	---	659.9
<b>Total</b>	<b>507.0</b>	<b>500.5</b>	<b>446.6</b>	<b>419.9</b>	<b>47.1</b>	<b>1,921.1</b>

**10- COMPARATIVE FIGURES**

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

**Non-GAAP Financial Measures**

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

**Forward-Looking Statements**

This shareholders' report may contain forward-looking statements about the operations, objectives and strategies of Industrial Alliance Insurance and Financial Services Inc., as well as its financial situation and performance. These statements can generally be identified by the use of words such as "may," "expect," "anticipate," "intend," "believe," "estimate," "feel," "continue," or other similar expressions, in the affirmative or negative. These statements are subject to risks and uncertainties that may cause actual results to differ materially from those expressed or implied by the forward-looking statements. Factors that could cause actual results to differ materially from the Company's expectations include changes in government regulations or in tax laws, competition, technological changes, global capital market activity, interest rates, changes in demographic data, changes in consumer demand for the Company's products and services, catastrophic events and general economic conditions in Canada or elsewhere in the world. This list is not exhaustive of the factors that may affect any of Industrial Alliance's forward-looking statements. These and other factors must be examined carefully and readers should not place undue reliance on Industrial Alliance's forward-looking statements.

**About Industrial Alliance**

Founded in 1892, Industrial Alliance Insurance and Financial Services Inc. is a life and health insurance company that offers a wide range of insurance products and financial services. The fifth largest life insurance company in Canada, Industrial Alliance is at the head of a large financial group – the Industrial Alliance Group – which has operations across Canada. Either directly or through its two life insurance subsidiaries (National Life, whose head office is in Toronto, and Industrial Alliance *Pacific*, whose head office is in Vancouver), Industrial Alliance insures over 1.7 million Canadians, employs more than 2,400 people and manages and administers \$25.5 billion in assets. Industrial Alliance stock is listed on the Toronto Stock Exchange under the ticker symbol IAG. Industrial Alliance is among the 100 largest public companies in Canada.

**Conference Call**

Industrial Alliance will hold a conference call to present its results on Wednesday, November 3, 2004, at 2:00 p.m. (ET). Everyone is invited to listen in on the conference call, by dialling 1-800-428-5596 (toll free) 10 minutes before the start of the conference. A replay of the conference call will also be available for a one-week period, starting at 4:30 p.m. on Wednesday, November 3, 2004. To listen to the conference call replay, dial 1-800-558-5253 (toll free) and enter access code 21210106. All third quarter financial results are available on the Company's website at [www.inalco.com](http://www.inalco.com), in the *Investor Relations* section, under *Financial Reports/Financial Results for the Third Quarter 2004*.

**TO REACH US****■ Shareholder Information**

If you have questions about your shares or if you would like more information on the services offered to shareholders, contact Computershare Trust Company of Canada, Industrial Alliance's share transfer agent, at:

Telephone: 1 877 684-5000 (toll free)

E-mail: [inalco@computershare.com](mailto:inalco@computershare.com)

**■ Financial Information**

For financial information on Industrial Alliance, contact the Investor Relations Department at:

Telephone: (418) 684-5000, ext. 5282

1 800 463-6236, ext. 5282 (toll free)

Fax: (418) 684-5050

E-mail: [investors@inalco.com](mailto:investors@inalco.com)

or

go to the *Investor Relations* section of Industrial Alliance's web site at [www.inalco.com](http://www.inalco.com). This section is specially designed for shareholders and investors.

---