

# Shareholders' Report



First Quarter 2005

Management's Discussion and Analysis of Results of Operations and Financial Position for the Three-Month Period Ending March 31, 2005

## **INDUSTRIAL ALLIANCE STARTS THE YEAR ON A STRONG NOTE: 14% INCREASE IN NET INCOME FOR THE FIRST QUARTER OF 2005**

### **The dividend is increased by 14%**

Industrial Alliance Insurance and Financial Services Inc. continued its momentum and ended the first quarter of 2005 with shareholder net income of \$42.4 million, a 14% increase over the same period last year. This income translates into diluted earnings per share of \$1.06, up \$0.13 over the first quarter of 2004. At 13.8% annualized for the quarter (13.5% in the first quarter of 2004), the return on equity remained within the Company's 13% to 15% target range.

The increase in income is a result of the profitable growth of the Company's in-force block of business, and the increase in income on capital, the latter of which is partially due to an excellent first quarter for the Company's auto and home subsidiary. All lines of business contributed to the Company's profitability and obtained a higher income during the quarter compared to the same period last year.

The income for the quarter contains two offsetting components: \$0.9 million (after taxes) in restructuring charges related to the integration of the operations of National Life with those of the parent company and a \$1.1 million gain (after taxes) from the sale of the Teleglobe bonds held by the Company.

In terms of business growth, the year also got off to a good start, with premiums and deposits totalling \$997.9 million, an increase of 25% compared to the same period last year. The Company's Individual Wealth Management sector had a very successful RRSP season, as general fund, segregated fund and mutual fund sales totalled \$495.2 million, up 52% over the first quarter of last year. Net segregated fund sales did particularly well, reaching a record \$198.9 million, which ranks the Company third in Canada in this area, with a 20.1% market share (13.7% for 2004). The Individual Wealth Management sector, a new sector for the Company, combines the general fund and segregated fund sales of the former Individual Annuities sector, with mutual fund deposits from the Company's fund management subsidiaries.

"We started 2005 with the same vitality that we ended 2004," stated Yvon Charest, President and Chief Executive Officer. "The first quarter was an opportunity for us to get a strong foothold in the mutual funds market, following the acquisition of BLC-Edmond de Rothschild at the end of last year. The Laurentian Bank distribution network, with which we have signed a ten-year exclusive distribution agreement to sell our mutual funds, has fulfilled all of our expectations. The integration of the National Life operations is going very well. From a legal standpoint, the integration could even take place on June 30, 2005, six months earlier than expected. New business continues to be profitable, with the added value of sales increasing by 36% over the same period last year to reach a new high. Our capital ratio still exceeds our target range, providing us with considerable financial flexibility, which allows us to increase the dividend by \$0.03 per share, to \$0.25 per share. This dividend corresponds to a payout ratio of 24%, which brings us closer to our objective of increasing the payout to 25% of the Company's net income within the next year."



IN LINE WITH YOUR LIFE®

| (Millions of dollars, unless otherwise indicated) | HIGHLIGHTS               |          |                |
|---|--------------------------|----------|----------------|
|   | First quarter            |          |                |
|   | 2004                     | 2005     | Variation      |
|   | (Restated <sup>1</sup> ) |          |                |
| Net income to shareholders                        |                          |          |                |
| Individual Insurance                              | 18.9                     | 20.1     | 6%             |
| Individual Wealth Management                      | 7.8                      | 10.3     | 32%            |
| Group Insurance                                   | 6.7                      | 7.7      | 15%            |
| Group Pensions                                    | 3.7                      | 4.3      | 16%            |
| Total   | 37.1                     | 42.4     | 14%            |
| Diluted earnings per share                        | \$0.93                   | \$1.06   | \$0.13         |
| Return on equity                                  |                          |          |                |
| Quarter annualized                                | 13.5%                    | 13.8%    | 30 basis pts   |
| Last twelve months                                | 14.2%                    | 13.5%    | (70 basis pts) |
| Premiums and deposits                             | 801.4                    | 997.9    | 25%            |
| Assets under management/administration            | 20,528.4                 | 29,578.2 | 44%            |

### Retirement of John Gill, President of Industrial Alliance *Pacific*

Mr. Charest also announced that John Gill, President of Industrial Alliance *Pacific* Insurance and Financial Services Inc., will be retiring in July.

"It is with deep regret that we will bid John farewell," Mr. Charest commented. "John played a key role in the acquisition of Seaboard Life in 1999. Not only did he succeed in integrating Seaboard and its retail operations, he also succeeded in developing two strong and profitable market niches from the Industrial Alliance *Pacific* head office in Vancouver: creditor insurance with car dealers and Special Markets Group. He leaves this organization with a strong and capable management team."

Mr. Gill, who turns 63 next month, has been with the Industrial Alliance Group for over 30 years. In 1982, he was appointed president of Industrial Alliance *Pacific*, a life and health insurance subsidiary whose head office is in Vancouver.

"We have recently set up a committee of the Board that will be in charge of finding a successor for John," Mr. Charest added. "The mandate of this successor will be to continue using the same winning strategy that John has implemented so well. We hope to be able to announce John's successor at the end of July, when we publish our results for the second quarter. On behalf of all Industrial Alliance Group employees, particularly those of Industrial Alliance *Pacific*, I wish John a long and healthy retirement."

### Sources of Earnings

Following are the main profitability factors for the first quarter of 2005.

*Expected profit from in-force business* – The expected profit from in-force business reached \$64.0 million in the first quarter, a 17% increase over the same period in 2004. This increase is in line with the Company's expectations of low double-digit growth for the expected profit from in-force business. This increase is a result of the profitable growth of in-force business over the past several years, the pricing discipline maintained by the Company, the growth of assets in the Individual Wealth Management sector, the recognition of experience gains from prior years and the caution exercised in the determination of actuarial liability valuation margins.

*Experience gains (losses)* – Experience gains contributed to a \$3.4 million increase in profit for the quarter. All lines of business recorded experience gains during the quarter. About one half of the experience gains are attributed to the amount recovered from the disposition of Teleglobe bonds, the other half being attributed to the collection of higher than expected management fees due to a higher asset base and a favourable mortality rate on insured annuities in the Group Pensions sector.

*Gain (strain) on sales* – New business strain was \$20.7 million for the quarter, up 7% over the same period last year. The increase is explained by the growth of sales during the quarter and by the conservatism of the assumptions used in the valuation of the reserves. New business strain is a latent benefit that will be realized on the income statement in future years if the pricing assumptions materialize.

*Income on capital* – Income on capital totalled \$16.8 million, which is 24% higher than last year. There are three reasons for this increase: the improved profitability of the auto and home insurance subsidiary due to particularly good claims experience for a first quarter, a decrease in the cost of financing debt securities and higher investment income than last year for almost all asset categories, owing in part to a higher asset base.

*Income taxes* – Income taxes totalled \$20.2 million for the first quarter of 2005, up from \$17.8 million for the same period last year, but consistent with the Company's increased profitability. The effective tax rate was 31.8% for the first quarter compared to 32.4% for the same period last year.

*Other items: National Life integration* – In the first quarter, the Company recorded a \$0.9 million charge (after taxes) for the integration of National Life. This charge is in line with plan. The Company still expects restructuring charges will total \$12.5 million (after taxes). Of this amount, \$6.1 million was recognized in the fourth quarter of 2004 and \$0.9 million in the first quarter of 2005, for a total of \$7.0 million. The other charges will be recognized as they are incurred, from now until the end of 2006, which corresponds to the expected integration period for the administration systems. Any cost savings related to the integration are included in the operating profit. For 2005, the Company expects this combination will be neutral from a profitability standpoint.

| SOURCES OF EARNINGS           |                          |        |
|-------------------------------|--------------------------|--------|
| (Millions of dollars)         | First quarter            |        |
|                               | 2004                     | 2005   |
|                               | (Restated <sup>1</sup> ) |        |
| Operating profit              |                          |        |
| Expected profit from in-force | 54.6                     | 64.0   |
| Experience gains (losses)     | 6.0                      | 3.4    |
| Gain (strain) on sales        | (19.3)                   | (20.7) |
| Changes in assumptions        | 0.0                      | 0.0    |
| Total                         | 41.3                     | 46.7   |
| Income on capital             | 13.6                     | 16.8   |
| Income taxes                  | (17.8)                   | (20.2) |
| Other items                   | 0.0                      | (0.9)  |
| Net income                    | 37.1                     | 42.4   |

#### **New Name for the Individual Annuities Sector: Individual Wealth Management**

Because of the growing importance of its wealth management operations, the Company has decided to combine all wealth management business into a single sector. The Company has therefore renamed the "Individual Annuities" sector "Individual Wealth Management." From a profitability standpoint, this sector now contains the operations of Industrial Alliance Mutual Funds, Industrial Alliance Fund Management (formerly BLC-Edmond de Rothschild Asset Management), Industrial Alliance Securities, Investia and FundEX, in addition to the operations of the former Individual Annuities sector (general funds and segregated funds). From a sales standpoint, in addition to general funds and segregated funds, the Company will take into account sales of mutual funds managed by its Industrial Alliance Mutual Funds and Industrial Alliance Fund Management subsidiaries. The operations of these two subsidiaries will be combined in the next few months. The 2004 results have not been restated given that the impact is not material.

#### **Business Growth**

A highly successful RRSP period and a good business persistency rate pushed premiums and deposits to a historical high of almost \$1 billion for the quarter (\$997.9 million), a 25% increase over the same period in 2004. Growth came mainly from the Individual Wealth

Management sector, which greatly benefited from sales of mutual funds distributed by the recently acquired fund management subsidiary now known as Industrial Alliance Fund Management. All lines of business recorded an increase in premiums.

Following are a few of the sales highlights for each line of business for the first quarter of 2005.

*Individual Insurance* – The Individual Insurance sector recorded sales growth for a seventh straight quarter, compared to the same quarter the previous year, closing the quarter with \$31.0 million in sales, up 1% over the first quarter of 2004. Sales are up in the Career and General Agents networks. The combination of the distribution operations of the Industrial Alliance Group's three life insurance companies is proceeding normally. This combination has led to a reorganization of the distribution structure by network rather than by company. This new strategy aims to offer a single line of insurance and wealth management products to all distribution networks and to ensure better coordination of the Company's product and service development and marketing operations across Canada. The Company was ranked third with respect to individual insurance sales in Canada in 2004, with 13.2% of the market.

*Individual Wealth Management* – The 2005 RRSP season was excellent, after an exceptional season in 2004. Sales of general funds (mainly composed of guaranteed investment certificates), segregated funds and mutual funds reached \$495.2 million for the first quarter, up 52% over the same period last year. This increase comes from the contribution of the Company's fund management subsidiaries, which had an excellent RRSP campaign, with mutual fund sales of \$145.6 million. Segregated funds also recorded good results, ending the quarter with record net sales of \$198.9 million, which ranks the Company third in Canada in this area, with a 20.1% market share (the Company was ranked fourth at the end of 2004, with a 13.7% market share).

*Group Insurance: Employee Plans* – The year got off to a slow start for the Group Insurance Employee Plans sector, with sales of \$13.9 million, down 36% compared to the first quarter of last year. This slowdown is explained by the lack of activity on the market, with the industry suffering a 28% decrease in sales.

*Group Creditor Insurance* – It was an excellent start to the year for Group Creditor Insurance, after a rather challenging year in 2004. Sales reached \$28.1 million in the first quarter, up 14% over last year. Practically all regions obtained double-digit growth. This favourable result is explained by the successful recruitment of new car dealers in 2004. 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 (SMG)* – Special Markets Group continues to benefit from strong growth of sales in past years, so that the business volume reached \$21.4 million, a 6% increase in the first quarter. Special Markets Group specializes in certain group insurance market segments that are not well served by traditional group insurance providers.

*Group Pensions* – In spite of a lack of transfers of large groups, sales increased by 4% in the Group Pensions sector, totalling \$130.9 million. This increase primarily comes from the insured annuities segment, as well as strong growth of recurring premiums from accumulation contracts. From a strategic standpoint, the Company continues to focus on the accumulation contracts segment.

| BUSINESS GROWTH                                   |               |       |           |
|---|---------------|-------|-----------|
| (Millions of dollars, unless otherwise indicated) | First quarter |       |           |
|   | 2004          | 2005  | Variation |
| Premiums and deposits                             |               |       |           |
| Insurance and annuity premiums                    | 801.4         | 852.3 | 6%        |
| Mutual fund deposits                              | --            | 145.6 | --        |
| Total   | 801.4         | 997.9 | 25%       |

| BUSINESS GROWTH (continued)                       |               |          |           |
|---|---------------|----------|-----------|
| (Millions of dollars, unless otherwise indicated) | First quarter |          |           |
|   | 2004          | 2005     | Variation |
| Sales <sup>2</sup>                                |               |          |           |
| Individual Insurance                              | 30.6          | 31.0     | 1%        |
| Individual Wealth Management                      |               |          |           |
| General funds                                     | 78.4          | 74.5     | (5%)      |
| Segregated funds                                  | 246.9         | 275.1    | 11%       |
| Mutual funds                                      | --            | 145.6    | --        |
| Total   | 325.3         | 495.2    | 52%       |
| Group Insurance                                   |               |          |           |
| Employee Plans                                    | 21.6          | 13.9     | (36%)     |
| Creditor Insurance                                | 24.6          | 28.1     | 14%       |
| Special Markets Group (SMG)                       | 20.1          | 21.4     | 6%        |
| Group Pensions                                    | 125.3         | 130.9    | 4%        |
| Assets under management/under administration      |               |          |           |
| Assets under management                           | 16,131.8      | 19,331.2 | 20%       |
| Assets under administration                       | 4,396.6       | 10,247.0 | 133%      |
| Total   | 20,528.4      | 29,578.2 | 44%       |

### Added Value of Sales

The Company continues to underwrite very profitable business, as the added value of sales grew 36% in the first quarter of 2005, to \$23.6 million (\$0.59 per share). This is the most solid quarter the Company has experienced, in absolute terms and in terms of rate of growth, since it began disclosing the added value of sales. This increase is primarily explained by the following three factors: the consideration of mutual funds in the calculation of the added value of sales, the increase in segregated fund sales and the update of economic assumptions to take into account the current environment of Canadian bond returns.

### Assets Under Management and Under Administration

Assets under management and under administration totalled \$29.6 billion as at March 31, 2005, an increase of 4% for the quarter and 44% in the last twelve months. Growth was good in all sectors during the quarter, owing to an increase in premium income, the growth of the Company's different subsidiaries and the performance of the stock markets. Growth over the last year comes primarily from the purchase of BLC-Edmond de Rothschild Asset Management, the acquisition of a majority share in FundEX Investments and solid growth by the Company's various wealth management subsidiaries.

### Solvency

The solvency ratio was 222% as at March 31, 2005, unchanged from the end of 2004. No significant changes impacted the solvency ratio during the quarter. The Company's solvency ratio target range is between 175% and 200%.

### Quality of Investments

The quality of investments remains excellent. Highlights of the quarter included the disposition of the Teleglobe bonds held by the Company. These bonds had a book value of \$27.9 million and were fully provisioned. The proceeds of the sale totalled \$1.7 million, which translates into an after-tax profit of \$1.1 million.

The disposition of the Teleglobe bonds decreased gross impaired investments from \$47.6 million as at December 31, 2004 to \$22.3 million as at March 31, 2005, while provisions decreased from \$39.1 million to \$11.3 million for the same dates. Net impaired investments remained at about the same level, increasing from \$8.5 million as at December 31, 2004 (0.08% of total investments) to \$11.0 million as at March 31, 2005 (0.10% of total investments).

A \$1.9 million US conventional mortgage loan has defaulted. This default increases the mortgage loans delinquency rate from 0.32% as at December 31, 2004 to 0.43% as at March 31, 2005. Mortgage loans in arrears total \$10.8 million. Four loans account for 93% of the arrears. The Company is not expecting any losses on the loans in default.

Finally, no bonds defaulted during the quarter, and the real estate occupancy rate remains excellent (95.8% as at March 31, 2005 compared to 95.2% as at December 31, 2004).

| QUALITY OF INVESTMENTS                                    |                |                   |                |
|---|----------------|-------------------|----------------|
|   | March 31, 2004 | December 31, 2004 | March 31, 2005 |
| <b>Overall quality indices</b>                            |                |                   |                |
| Gross impaired investments                                | \$56.4 M       | \$47.6 M          | \$22.3 M       |
| Provisions for losses                                     | \$40.2 M       | \$39.1 M          | \$11.3 M       |
| Net impaired investments                                  | \$16.2 M       | \$8.5 M           | \$11.0 M       |
| Impaired investments as a % of total investments          | 0.16%          | 0.08%             | 0.10%          |
| Provisions as a % of gross impaired investments           | 71.3%          | 82.0%             | 50.6%          |
| <b>Bonds – Value of the portfolio</b>                     |                |                   |                |
| Rated BB and lower  | \$5,774.9 M    | \$6,074.5 M       | \$6,188.1 M    |
| Delinquency rate  | 0.09%          | 0.24%             | 0.23%          |
|   | 0.02%          | 0.02%             | 0.02%          |
| <b>Mortgage loans – Value of the portfolio</b>            |                |                   |                |
| Delinquency rate  | \$2,523.3 M    | \$2,491.8 M       | \$2,478.2 M    |
| Proportion of impaired loans that are insured             | 0.66%          | 0.32%             | 0.43%          |
|   | 43.6%          | 81.0%             | 64.3%          |
| <b>Stocks and market indices – Value of the portfolio</b> |                |                   |                |
| Market/book value ratio, as a %                           | \$963.4 M      | \$1,081.1 M       | \$1,114.6 M    |
|   | 104.1%         | 104.6%            | 104.8%         |
| <b>Real estate – Value of the portfolio</b>               |                |                   |                |
| Market/book value ratio, as a %                           | \$425.5 M      | \$444.5 M         | \$445.4 M      |
| Occupancy rate  | 104.6%         | 108.6%            | 109.2%         |
|   | 95.9%          | 95.2%             | 95.8%          |

### Acquisition of Business

On April 22, 2005, Industrial Alliance Securities Inc., the Company's securities subsidiary, concluded the acquisition of certain assets of KingsGate Securities Inc. (KingsGate), owned by KingsGate Wealth Management Services Limited. The agreement in principle was announced on March 3, 2005. KingsGate is a full-service securities brokerage firm located in Ontario. It has some 20 securities brokers, over 5,000 clients and administers almost \$280 million in assets. The purchase price was \$1.8 million. KingsGate will be in charge of business development for Industrial Alliance Securities in Ontario. This acquisition will increase the assets under administration of Industrial Alliance Securities to over \$1.2 billion.

### Embedded Value

The Company took advantage of the disclosure of its quarterly results to publish its embedded value for 2004. Hence, on December 31, 2004, Industrial Alliance's embedded value reached \$2.1 billion, or \$53.80 per common share. This is a 14.3% increase over the value calculated as at December 31, 2003, before the payment of dividends to shareholders, and 12.6% after the payment of dividends.

Recurring items, which are those over which the Company has a certain control, added 10.9% to the Company's embedded value. Since Industrial Alliance began calculating embedded value, recurring items have always resulted in a double-digit growth rate for embedded value, which is consistent with the Company's expectations.

The Company continues to stand out through its capacity to generate profitable new sales, as is demonstrated by the value of new sales. The value of new sales reached \$1.60 per common share in 2004, accounting for a 3.4% increase in the embedded value for the year. The embedded value of new sales is particularly significant for the financial community, since it can be used to judge the profitability of the products and services offered by a company and the productivity of its distribution networks.

The Company's embedded value remains the highest in the industry according to a key parameter, the embedded value/book value ratio, which was 1.76x as at December 31, 2004 compared to 1.88x as at December 31, 2003. The slight decrease during the year is primarily attributed to the transfer of a portion of the participating policyholders' account to the shareholders' account.

| EMBEDDED VALUE                                     |                |                                    |                          |
|--|----------------|------------------------------------|--------------------------|
| As at December 31, 2004                            | Embedded value | Contribution to the embedded value | Embedded value per share |
|  | (\$Million)    | (%)                                | (\$)                     |
| <b>Embedded value as at December 31, 2003</b>      | <b>1,899</b>   | --                                 | <b>\$48.41</b>           |
| Preferred shares conversion                        | 19             | 1.0%                               | (\$0.08 )                |
| Transfer from participating policyholders' account | 26             | 1.4%                               | \$0.66                   |
| <b>Total capital variance</b>                      | <b>45</b>      | <b>2.4%</b>                        | <b>\$0.58</b>            |
| Expected growth                                    | 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                         |                |                                    |                          |
| Related to the stock markets                       | 18             | 0.9%                               | \$0.45                   |
| Not related to the stock markets                   | 8              | 0.4%                               | \$0.20                   |
| Changes in assumptions                             | (10)           | (0.6%)                             | (\$0.25 )                |
| National Life integration                          | 37             | 2.0%                               | \$0.92                   |
| Acquisition of BLC-Edmond de Rothschild            | (33)           | (1.7%)                             | (\$0.82 )                |
| <b>Total non-recurring items</b>                   | <b>20</b>      | <b>1.0%</b>                        | <b>\$0.50</b>            |
| <b>Total before payment of dividends</b>           | <b>272</b>     | <b>14.3%</b>                       | <b>\$6.21</b>            |
| <b>Dividends paid to shareholders</b>              | <b>(33)</b>    | <b>(1.7%)</b>                      | <b>(\$0.82 )</b>         |
| <b>Total embedded value added</b>                  | <b>239</b>     | <b>12.6%</b>                       | <b>\$5.39</b>            |
| <b>Embedded value as at December 31, 2004</b>      | <b>2,138</b>   | <b>--</b>                          | <b>\$53.80</b>           |

#### Declaration of Dividend

The Board of Directors has declared the payment of a quarterly dividend of \$0.25 per common share, an increase of \$0.03 per common share (or 14%). This dividend will be payable in cash on June 15, 2005, to the shareholders of record on May 20, 2005.

At the annual general and special meeting on May 4, 2005, Industrial Alliance shareholders and participating policyholders approved a resolution for a two-for-one split of the Company's common stock. The split will take effect on May 18, 2005, and the Company's shares will commence trading on a split-adjusted basis on May 16, 2005. The dividend paid to the shareholders of record on May 20, 2005 will thus be \$0.125 per share on a split-adjusted basis.

#### Notes

- (1) The data for the first three quarters of 2004 were restated after the Company realized that the amount that could be transferred from the participating policyholders' account to the retained earnings account, pursuant to the *Insurance Companies Act*, had been understated each year since 1981 following the incorrect application of the calculation method.
- (2) Sales are defined as follows for each sector: Individual Insurance: first year annualized premiums; Individual Wealth Management: premiums for general funds and segregated funds and deposits for mutual funds; Group Insurance: first year annualized premiums for Employee Plans, including Administrative Services Only (ASO) contracts, gross premiums for Creditor Insurance and premiums for Special Markets Group (SMG); Group Pensions: premiums.

### Non-GAAP Financial Measures

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

### Forward-Looking Statements

This 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.

## CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2005 and 2004

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Please note that the consolidated interim 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)

|   | Three months ended<br>March 31 |                        |
|---|--------------------------------|------------------------|
|   | <u>2005</u>                    | <u>2004</u>            |
|   | \$                             | \$                     |
|   | (unaudited)                    | (restated)<br>(note 3) |
| <b>REVENUES</b>   |                                |                        |
| Premiums (note 10)  | 852.3                          | 801.4                  |
| Net investment income   | 173.7                          | 180.9                  |
| Fees and other revenues   | 48.5                           | 34.6                   |
|   | <u>1,074.5</u>                 | <u>1,016.9</u>         |
| <b>POLICY BENEFITS AND EXPENSES</b>                                     |                                |                        |
| Change in provisions for future policy benefits                         | 106.8                          | 135.1                  |
| Payments to policyholders and beneficiaries                             | 352.6                          | 328.0                  |
| Net transfer to segregated funds  | 364.0                          | 317.1                  |
| Dividends, experience rating refunds and interest on amounts on deposit | 1.3                            | 12.9                   |
| Commissions   | 100.2                          | 89.2                   |
| Premium and other taxes   | 12.7                           | 11.7                   |
| General expenses  | 69.4                           | 64.1                   |
| Net financing expenses  | 4.2                            | 4.0                    |
|   | <u>1,011.2</u>                 | <u>962.1</u>           |
| <b>INCOME BEFORE INCOME TAXES</b>                                       | <b>63.3</b>                    | <b>54.8</b>            |
| Income taxes  | (20.0)                         | (17.5)                 |
| <b>NET INCOME</b>   | <b>43.3</b>                    | <b>37.3</b>            |
| <b>Net income attributable to participating policyholders</b>           | <b>0.9</b>                     | <b>0.2</b>             |
| <b>Net income attributable to shareholders</b>                          | <b>42.4</b>                    | <b>37.1</b>            |
| <b>Earnings per share</b> (note 7)                                      |                                |                        |
| basic (in dollars)  | 1.07                           | 0.94                   |
| diluted (in dollars)  | 1.06                           | 0.93                   |

**INDUSTRIAL ALLIANCE INSURANCE AND FINANCIAL SERVICES INC.**  
**CONSOLIDATED BALANCE SHEETS**

(in millions of dollars)

|   | <u>As at</u><br><u>March 31</u><br><u>2005</u><br>\$<br>(unaudited) | <u>As at</u><br><u>December 31</u><br><u>2004</u><br>\$ | <u>As at</u><br><u>March 31</u><br><u>2004</u><br>\$<br>(unaudited)<br>(restated)<br>(note 3) |
|---|---|---|---|
| <b>ASSETS</b>   |   |   |   |
| <b>Invested assets</b>  |   |   |   |
| Bonds   | 6,188.1   | 6,074.5   | 5,774.9   |
| Mortgages   | 2,478.2   | 2,491.8   | 2,523.3   |
| Stocks  | 1,114.6   | 1,081.1   | 963.4   |
| Real estate   | 445.4   | 444.5   | 425.5   |
| Policy loans  | 196.3   | 162.7   | 187.7   |
| Short-term investments  | 65.6  | 83.0  | 18.6  |
| Cash and cash equivalents   | 252.8   | 252.9   | 197.0   |
| Other invested assets   | 32.3  | 18.8  | 100.4   |
|   | <b>10,773.3</b>   | 10,609.3  | 10,190.8  |
| <b>Goodwill</b>   | <b>124.7</b>  | 125.7   | 56.5  |
| <b>Other assets</b>   | <b>348.1</b>  | 315.5   | 403.1   |
|   | <b>472.8</b>  | 441.2   | 459.6   |
| <b>TOTAL GENERAL FUND ASSETS</b>  | <b>11,246.1</b>   | 11,050.5  | 10,650.4  |
| <b>SEGREGATED FUNDS NET ASSETS</b>                                      | <b>6,260.0</b>  | 5,913.6   | 5,385.7   |
| <b>LIABILITIES</b>  |   |   |   |
| <b>Policy liabilities</b>   |   |   |   |
| Provisions for future policy benefits                                   | 8,264.8   | 8,157.7   | 7,803.6   |
| Provisions for dividends to policyholders and experience rating refunds | 44.6  | 50.2  | 52.6  |
| Benefits payable and provision for unreported claims                    | 131.2   | 121.7   | 142.3   |
| Policyholders' amounts on deposit                                       | 165.8   | 164.1   | 145.7   |
|   | <b>8,606.4</b>  | 8,493.7   | 8,144.2   |
| <b>Other liabilities</b>  | <b>661.6</b>  | 645.3   | 632.3   |
| <b>Deferred net realized gains</b>                                      | <b>399.7</b>  | 380.7   | 380.6   |
| <b>Subordinated debentures</b>  | <b>310.1</b>  | 150.0   | 210.0   |
| <b>Other debts</b>  | ---   | 150.0   | 150.0   |
| <b>Participating policyholders' account</b>                             | <b>18.2</b>   | 17.3  | 13.4  |
| <b>EQUITY</b>   |   |   |   |
| Share capital (note 6)  | 459.1   | 458.1   | 458.2   |
| Contributed surplus   | 10.1  | 9.5   | 7.2   |
| Retained earnings   | 786.7   | 751.7   | 657.0   |
| Currency translation account  | (5.8)   | (5.8)   | (2.5)   |
|   | <b>1,250.1</b>  | 1,213.5   | 1,119.9   |
| <b>TOTAL GENERAL FUND LIABILITIES AND EQUITY</b>                        | <b>11,246.1</b>   | 11,050.5  | 10,650.4  |
| <b>SEGREGATED FUNDS LIABILITIES</b>                                     | <b>6,260.0</b>  | 5,913.6   | 5,385.7   |

**INDUSTRIAL ALLIANCE INSURANCE AND FINANCIAL SERVICES INC.**

**CONSOLIDATED PARTICIPATING POLICYHOLDERS' ACCOUNT**

(in millions of dollars)

|  | Three months ended<br>March 31 |                        |
|--|--------------------------------|------------------------|
|  | 2005                           | 2004                   |
|  | \$                             | \$                     |
|  | (unaudited)                    | (restated)<br>(note 3) |
| Participating policyholders' account at beginning of period                    | 17.3                           | 64.8                   |
| Restatement of the transfer amount of the participating policyholders' account | ---                            | (51.6)                 |
| Participating policyholders' account restated at beginning of period           | 17.3                           | 13.2                   |
| Income for the period  | 1.8                            | 1.4                    |
| Dividends  | (0.8)                          | (1.1)                  |
| Transfer to the shareholders' account  | (0.1)                          | (0.1)                  |
| Net income attributable to participating policyholders                         | 0.9                            | 0.2                    |
| <b>Participating policyholders' account at end of period</b>                   | <b>18.2</b>                    | <b>13.4</b>            |

**CONSOLIDATED CONTRIBUTED SURPLUS**

(in millions of dollars)

|   | Three months ended<br>March 31 |            |
|---|--------------------------------|------------|
|   | 2005                           | 2004       |
|   | \$                             | \$         |
|   | (unaudited)                    |            |
| Contributed surplus at beginning of period          | 9.5                            | 6.5        |
| Current year contribution for the stock option plan | 0.7                            | 0.7        |
| Stock options exercised                             | (0.1)                          | ---        |
| <b>Contributed surplus at end of period</b>         | <b>10.1</b>                    | <b>7.2</b> |

**CONSOLIDATED RETAINED EARNINGS**

(in millions of dollars)

|  | Three months ended<br>March 31 |                        |
|--|--------------------------------|------------------------|
|  | 2005                           | 2004                   |
|  | \$                             | \$                     |
|  | (unaudited)                    | (restated)<br>(note 3) |
| Retained earnings at beginning of period   | 751.7                          | 575.9                  |
| Restatement of the transfer amount of the participating policyholders' account       | ---                            | 51.6                   |
| Impact of the non-consolidation of the Industrial Alliance Trust Securities (note 2) | 1.3                            | ---                    |
| Retained earnings at beginning of period   | 753.0                          | 627.5                  |
| Net income attributable to shareholders  | 42.4                           | 37.1                   |
| Dividends  | (8.7)                          | (7.6)                  |
| <b>Retained earnings at end of period</b>  | <b>786.7</b>                   | <b>657.0</b>           |

**INDUSTRIAL ALLIANCE INSURANCE AND FINANCIAL SERVICES INC.**  
**CONSOLIDATED CASH FLOWS STATEMENTS**

(in millions of dollars)

Three months ended  
March 31

| 2005 | 2004 |
|------|------|
| \$   | \$   |

(unaudited)

**CASH FLOWS FROM OPERATING ACTIVITIES**

|   |             |              |
|---|-------------|--------------|
| Net income  | 43.3        | 37.3         |
| Items not affecting cash and cash equivalents:          |             |              |
| Change in provision for future policy benefits          | 106.8       | 135.1        |
| Share of net results of significantly influenced entity | (0.6)       | (0.4)        |
| Amortization of realized and unrealized (gains) losses  | (31.7)      | (29.0)       |
| Amortization of premiums and discounts                  | (41.1)      | (36.0)       |
| Future income taxes                                     | 12.4        | 8.2          |
| Stock option plan                                       | 0.7         | 0.7          |
| Other   | 3.1         | 11.0         |
|   | <b>92.9</b> | <b>126.9</b> |
| Other changes in other assets and liabilities           | (18.9)      | (32.1)       |
| Cash flows from operating activities                    | <b>74.0</b> | <b>94.8</b>  |

**CASH FLOWS FROM INVESTING ACTIVITIES**

|                                      |                |                  |
|--------------------------------------|----------------|------------------|
| Sales, maturities and repayments of: |                |                  |
| Bonds                                | 402.5          | 446.8            |
| Mortgages                            | 140.5          | 140.1            |
| Stocks                               | 62.8           | 115.1            |
| Real estate                          | 1.2            | 14.3             |
| Policy loans                         | 16.7           | 15.9             |
| Other invested assets                | 74.3           | 30.8             |
|                                      | <b>698.0</b>   | <b>763.0</b>     |
| Purchases of:                        |                |                  |
| Bonds                                | (442.3)        | (623.8)          |
| Mortgages                            | (126.6)        | (170.3)          |
| Stocks                               | (83.0)         | (130.6)          |
| Real estate                          | (1.4)          | (11.1)           |
| Policy loans                         | (49.7)         | (48.0)           |
| Other invested assets                | (61.2)         | (25.7)           |
|                                      | <b>(764.2)</b> | <b>(1,009.5)</b> |
| Cash flows from investing activities | <b>(66.2)</b>  | <b>(246.5)</b>   |

**CASH FLOWS FROM FINANCING ACTIVITIES**

|                                      |              |             |
|--------------------------------------|--------------|-------------|
| Issue of common shares               | 1.1          | 1.2         |
| Redemption of debentures             | ---          | (75.0)      |
| Issue of debenture                   | ---          | 150.0       |
| Dividends paid on preferred shares   | ---          | (0.1)       |
| Dividends paid on common shares      | (8.7)        | (7.5)       |
| Decrease in mortgage debt            | (0.3)        | (0.2)       |
| Cash flows from financing activities | <b>(7.9)</b> | <b>68.4</b> |

|   |              |               |
|---|--------------|---------------|
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> | <b>(0.1)</b> | <b>(83.3)</b> |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b> | <b>252.9</b> | <b>280.3</b>  |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>       | <b>252.8</b> | <b>197.0</b>  |

**Supplementary information:**

|                                   |      |      |
|-----------------------------------|------|------|
| Interest paid                     | 5.9  | 6.2  |
| Income taxes paid, net of refunds | 11.0 | 12.1 |

**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>Three months<br/>ended<br/>March 31<br/>2005</b> | <b>Twelve months<br/>ended<br/>December 31<br/>2004</b> | <b>Three months<br/>ended<br/>March 31<br/>2004</b> |
|-------------------------------------|---|---|---|
|                                     | \$  | \$  | \$  |
|                                     | (unaudited)   |   | (unaudited)   |
| Net assets at beginning of period   | 5,913.6   | 5,042.2   | 5,042.2   |
| Additions:                          |   |   |   |
| Amounts received from policyholders | 362.6   | 976.9   | 386.0   |
| Investment income                   | 34.4  | 148.8   | 30.2  |
| Net realized gains                  | 56.7  | 72.8  | 46.0  |
| Net increase in market value        | 78.4  | 334.4   | 105.5   |
|                                     | <b>6,445.7</b>                                      | <b>6,575.1</b>  | <b>5,609.9</b>                                      |
| Deductions:                         |   |   |   |
| Amounts withdrawn by policyholders  | 155.2   | 550.5   | 197.2   |
| Operating expenses                  | 30.5  | 111.0   | 27.0  |
|                                     | <b>185.7</b>  | <b>661.5</b>  | <b>224.2</b>  |
| <b>Net assets at end of period</b>  | <b>6,260.0</b>                                      | <b>5,913.6</b>  | <b>5,385.7</b>                                      |

**CONSOLIDATED STATEMENTS OF NET ASSETS**

(in millions of dollars)

|  | <b>As at<br/>March 31<br/>2005</b> | <b>As at<br/>December 31<br/>2004</b> | <b>As at<br/>March 31<br/>2004</b> |
|--|------------------------------------|---------------------------------------|------------------------------------|
|  | \$                                 | \$                                    | \$                                 |
|  | (unaudited)                        |                                       | (unaudited)                        |
| <b>Assets</b>                            |                                    |                                       |                                    |
| Bonds                                    | 1,786.5                            | 1,677.8                               | 1,558.7                            |
| Mortgages and mortgage-backed securities | 28.5                               | 36.8                                  | 44.9                               |
| Stocks                                   | 1,772.0                            | 1,674.5                               | 1,527.1                            |
| Funds units                              | 2,250.8                            | 2,144.2                               | 1,949.5                            |
| Cash and short-term investments          | 418.4                              | 373.7                                 | 295.5                              |
| Other assets                             | 59.5                               | 27.8                                  | 55.7                               |
|  | <b>6,315.7</b>                     | <b>5,934.8</b>                        | <b>5,431.4</b>                     |
| <b>Liabilities</b>                       |                                    |                                       |                                    |
| Accounts payable and accrued expenses    | 55.7                               | 21.2                                  | 45.7                               |
| <b>Net assets</b>                        | <b>6,260.0</b>                     | <b>5,913.6</b>                        | <b>5,385.7</b>                     |

## **INDUSTRIAL ALLIANCE INSURANCE AND FINANCIAL SERVICES INC.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Three months ended March 31, 2005 and 2004 (unaudited)  
(in millions of dollars, unless otherwise indicated)

#### **1- ACCOUNTING POLICIES**

These interim Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2004, as set out in the 2004 Annual Report. The significant accounting policies followed in the preparation of these interim Consolidated Financial Statements are consistent with those found in the 2004 Annual Report, except as described in note 2 below.

#### **2- CHANGE IN ACCOUNTING POLICIES**

##### **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), a wholly owned 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 Accounting Guideline 15 and because the Company is deemed not to be the primary beneficiary, the IATS issued by the Trust are no more 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 CICA Accounting Guideline 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 Company has adjusted the accounting of the investment held by one subsidiary to consolidate them at the fair value and the impact is not material.

#### **3- RESTATEMENT OF THE TRANSFER AMOUNT OF THE PARTICIPATING POLICYHOLDERS' ACCOUNT**

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

Following this correction, the financial statements have been restated. The impact of this correction on the consolidated results translates into a \$0.5 increase in the net income attributable to shareholders and an equivalent decrease in the net income attributable to policyholders during the three months ended March 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.

This restatement increased the basic and diluted earnings per share for the three months ended March 31, 2004 by \$0.01.

#### **4- ACQUISITION OF BUSINESS**

In relation to the acquisition of Industrial Alliance Fund Management Inc. (formerly BLC-Edmond de Rothschild Asset Management Inc. (BLCER)), which closed on December 31, 2004, an amount of \$1.3 under of the recovery clause was recovered on March 3, 2005, decreasing the purchase price by this amount.

**INDUSTRIAL ALLIANCE INSURANCE AND FINANCIAL SERVICES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Three months ended March 31, 2005 and 2004 (unaudited)

(in millions of dollars, unless otherwise indicated)

**5-COST OF RESTRUCTURING**

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

|                                  | <b>Accrued on acquisition</b>    |   |   |   |
|----------------------------------|----------------------------------|---|---|---|
|                                  | <b>Expected<br/>future costs</b> | <b>Amounts incurred<br/>for the three<br/>months ended<br/>March 31, 2005</b> | <b>Cumulative<br/>amount incurred to<br/>date</b> | <b>Balance as at<br/>March 31, 2005</b> |
|                                  | \$                               | \$  | \$  | \$                                      |
| Compensation cost                | 1.3                              | 0.8   | 0.8   | 0.5                                     |
| Cost of restructuring operations | 2.1                              | 0.3   | 0.3   | 1.8                                     |
| <b>Total</b>                     | <b>3.4</b>                       | <b>1.1</b>  | <b>1.1</b>  | <b>2.3</b>                              |

On December 1, 2004, the Company announced the combination of the operations of its subsidiary The National Life Assurance Company of Canada with its own operations during the years 2005 and 2006. The impact of this combination in consolidated financial statements is a \$1.3 increase in the general expenses (\$0.9 after tax) for the three months ended March 31, 2005.

|   | <b>Expenses as incurred</b>          |   |   |   |   |
|---|--------------------------------------|---|---|---|---|
|   | <b>Expected<br/>future<br/>costs</b> | <b>Amounts<br/>incurred<br/>in 2004</b> | <b>Amounts incurred<br/>for the three<br/>months ended<br/>March 31, 2005</b> | <b>Cumulative<br/>amount<br/>incurred to<br/>date</b> | <b>Balance as at<br/>March 31, 2005</b> |
|   | \$                                   | \$                                      | \$  | \$  | \$                                      |
| Compensation cost   | 4.0                                  | 1.6                                     | 0.5   | 2.1   | 1.9                                     |
| 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                                  | ---                                     | 0.4   | 0.4   | 2.6                                     |
| Systems conversion and others   | 4.0                                  | ---                                     | 0.4   | 0.4   | 3.6                                     |
| <b>Total</b>  | <b>16.2</b>                          | <b>6.6</b>                              | <b>1.3</b>  | <b>7.9</b>  | <b>8.3</b>                              |

**INDUSTRIAL ALLIANCE INSURANCE AND FINANCIAL SERVICES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
Three months ended March 31, 2005 and 2004 (unaudited)  
(in millions of dollars, unless otherwise indicated)

**6- SHARE CAPITAL**

|   | 2005                                  |              | 2004                                  |              |
|---|---------------------------------------|--------------|---------------------------------------|--------------|
|   | Number of<br>shares<br>(in thousands) | Amount<br>\$ | Number of<br>shares<br>(in thousands) | Amount<br>\$ |
| <b>Common shares</b>  |                                       |              |                                       |              |
| Balance at beginning of period                                | 39,744.7                              | 458.2        | 39,345.6                              | 438.5        |
| Shares issued on exercise of<br>stock options                 | 25.0                                  | 1.1          | 30.3                                  | 1.2          |
| Shares issued on conversion<br>of preferred shares – Series 1 |                                       |              | 444.6                                 | 18.7         |
| Balance at end of period                                      | 39,769.7                              | 459.3        | 39,820.5                              | 458.4        |
| <b>Shares held in treasury</b>                                | <b>(10.8)</b>                         | <b>(0.2)</b> | <b>(10.8)</b>                         | <b>(0.2)</b> |
|   | <u>39,758.9</u>                       | <u>459.1</u> | <u>39,809.7</u>                       | <u>458.2</u> |
| <b>Preferred shares - Series 1</b>                            |                                       |              |                                       |              |
| Balance at beginning of period                                | ---                                   | ---          | 750.0                                 | 18.7         |
| Shares converted into common shares                           | ---                                   | ---          | (750.0)                               | (18.7)       |
| Balance at end of period                                      | <u>---</u>                            | <u>---</u>   | <u>---</u>                            | <u>---</u>   |
| <b>Preferred shares - Series A</b>                            |                                       |              |                                       |              |
| Balance at beginning of period                                | 4.0                                   | 0.1          | 4.0                                   | 0.1          |
| Shares issued   | ---                                   | ---          | ---                                   | ---          |
| Balance at end of period                                      | <u>4.0</u>                            | <u>0.1</u>   | <u>4.0</u>                            | <u>0.1</u>   |
| <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>459.1</u> |                                       | <u>458.2</u> |

The number of outstanding stock options (in thousands) as at March 31, 2005 is 1,529.5 (1,350.3 in 2004).

**INDUSTRIAL ALLIANCE INSURANCE AND FINANCIAL SERVICES INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Three months ended March 31, 2005 and 2004 (unaudited)

(in millions of dollars, unless otherwise indicated)

**7- EARNINGS PER SHARE**

|   | Three months ended<br>March 31 |                        |
|---|--------------------------------|------------------------|
|   | <u>2005</u>                    | <u>2004</u>            |
|   | \$                             | \$                     |
|   | (unaudited)                    |                        |
|   |                                | (restated)<br>(note 3) |
| Shareholders' net income  | <b>42.4</b>                    | 37.1                   |
| Less: dividends on preferred shares   | ---                            | (0.1)                  |
| Common shareholders' net income   | <b>42.4</b>                    | 37.0                   |
| Effect of the conversion on the common<br>shareholders' net income:                       |                                |                        |
| Reduction of financing expenses, net of income<br>taxes and dividends on preferred shares | ---                            | 0.2                    |
| Common shareholders' net income on a<br>diluted basis                                     | <b>42.4</b>                    | 37.2                   |
| Weighted daily average number of shares<br>outstanding                                    | <b>39,741,891</b>              | 39,307,469             |
| Add: diluted effect of stock options granted<br>and outstanding                           | <b>288,117</b>                 | 106,419                |
| Add: diluted effect of convertible preferred<br>shares in common shares                   | ---                            | 380,383                |
| Weighted average number of shares outstanding<br>on a diluted basis                       | <b>40,030,008</b>              | 39,794,271             |
| <b>Earnings per share</b> (in dollars)  |                                |                        |
| basic   | <b>1.07</b>                    | 0.94                   |
| diluted   | <b>1.06</b>                    | 0.93                   |

**8- EMPLOYEE FUTURE BENEFITS**

|   | Three months ended<br>March 31 |             |                    |             |
|---|--------------------------------|-------------|--------------------|-------------|
|   | <u>2005</u>                    | <u>2004</u> | <u>2005</u>        | <u>2004</u> |
|   | \$                             | \$          | \$                 | \$          |
|   | (unaudited)                    |             |                    |             |
|   | <u>Pension plans</u>           |             | <u>Other plans</u> |             |
| <b>Benefit plan expenses</b>                      |                                |             |                    |             |
| Current service cost                              | <b>2.9</b>                     | 2.8         | <b>0.1</b>         | 0.2         |
| Interest cost                                     | <b>4.7</b>                     | 4.2         | <b>0.3</b>         | 0.3         |
| Return on plan assets                             | <b>(5.1)</b>                   | (4.5)       | ---                | ---         |
| Actuarial loss (gain) on plan                     | <b>0.2</b>                     | 0.3         | ---                | (0.1)       |
| Amortization of the transitional obligation       | <b>(0.1)</b>                   | (0.1)       | ---                | ---         |
| Amortization of plan amendment                    | <b>0.1</b>                     | 0.1         | ---                | ---         |
| <b>Defined benefit plan costs recognized</b>      | <b>2.7</b>                     | 2.8         | <b>0.4</b>         | 0.4         |
| <b>Defined contribution plan costs recognized</b> | <b>0.1</b>                     | 0.1         | ---                | ---         |

**INDUSTRIAL ALLIANCE INSURANCE AND FINANCIAL SERVICES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Three months ended March 31, 2005 and 2004 (unaudited)  
(in millions of dollars, unless otherwise indicated)

**9- 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 funds, securities brokerage and trust businesses. These businesses are principally related to the individual wealth management segment and are now included in that segment (formerly Individual Annuities). 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 material. The Company operates mainly in Canada.

**Segmented income statements**

|  | Three months ended March 31, 2005 (unaudited) |                   |                 |            |                   |             |
|--|---|-------------------|-----------------|------------|-------------------|-------------|
|  | Individual                                    |                   | Group           |            | Other activities* | Total       |
|  | Life and Health                               | Wealth Management | Life and Health | Pensions   |                   |             |
| \$   | \$  | \$                | \$              | \$         | \$                |             |
| <b>Revenues</b>                                  |   |                   |                 |            |                   |             |
| Premiums   | 188.7   | 349.6             | 160.7           | 130.9      | 22.4              | 852.3       |
| Net investment income                            | 80.7  | 32.0              | 16.0            | 44.7       | 0.3               | 173.7       |
| Fees and other revenues                          | 1.9   | 40.7              | 2.3             | 3.3        | 0.3               | 48.5        |
|  | 271.3   | 422.3             | 179.0           | 178.9      | 23.0              | 1,074.5     |
| <b>Operating expenses</b>                        |   |                   |                 |            |                   |             |
| Cost of commitments to policyholders             | 160.2   | 45.9              | 118.9           | 118.8      | 16.9              | 460.7       |
| Net transfer to segregated funds                 | ---   | 315.1             | ---             | 48.9       | ---               | 364.0       |
| Commissions, general and other expenses          | 80.9  | 46.3              | 48.8            | 5.1        | 5.4               | 186.5       |
|  | 241.1   | 407.3             | 167.7           | 172.8      | 22.3              | 1,011.2     |
| Income before income taxes                       | 30.2  | 15.0              | 11.3            | 6.1        | 0.7               | 63.3        |
| Income taxes                                     | (9.6)   | (4.8)             | (3.7)           | (1.6)      | (0.3)             | (20.0)      |
| Net income before allocation of other activities | 20.6  | 10.2              | 7.6             | 4.5        | 0.4               | 43.3        |
| Allocation of other activities                   | 0.2   | 0.1               | 0.1             | ---        | (0.4)             | ---         |
| <b>Net income for the period</b>                 | <b>20.8</b>                                   | <b>10.3</b>       | <b>7.7</b>      | <b>4.5</b> | <b>---</b>        | <b>43.3</b> |
| Attributable to shareholders                     | 20.1  | 10.3              | 7.7             | 4.3        | ---               | 42.4        |
| Attributable to participating policyholders      | 0.7   | ---               | ---             | 0.2        | ---               | 0.9         |

|  | Three months ended March 31, 2004 (unaudited) (restated note 3) |                   |                 |            |                   |             |
|--|---|-------------------|-----------------|------------|-------------------|-------------|
|  | Individual  |                   | Group           |            | Other activities* | Total       |
|  | Life and Health   | Wealth Management | Life and Health | Pensions   |                   |             |
| \$   | \$  | \$                | \$              | \$         | \$                |             |
| <b>Revenues</b>                                  |   |                   |                 |            |                   |             |
| Premiums   | 179.9   | 325.3             | 152.0           | 125.3      | 18.9              | 801.4       |
| Net investment income                            | 86.8  | 34.4              | 15.9            | 43.6       | 0.2               | 180.9       |
| Fees and other revenues                          | 0.6   | 20.7              | 2.5             | 3.3        | 7.5               | 34.6        |
|  | 267.3   | 380.4             | 170.4           | 172.2      | 26.6              | 1,016.9     |
| <b>Operating expenses</b>                        |   |                   |                 |            |                   |             |
| Cost of commitments to policyholders             | 162.5   | 71.3              | 113.5           | 113.3      | 15.4              | 476.0       |
| Net transfer to segregated funds                 | ---   | 268.2             | ---             | 48.9       | ---               | 317.1       |
| Commissions, general and other expenses          | 76.4  | 29.1              | 46.3            | 4.6        | 12.6              | 169.0       |
|  | 238.9   | 368.6             | 159.8           | 166.8      | 28.0              | 962.1       |
| Income before income taxes                       | 28.4  | 11.8              | 10.6            | 5.4        | (1.4)             | 54.8        |
| Income taxes                                     | (9.0)   | (3.8)             | (3.7)           | (1.5)      | 0.5               | (17.5)      |
| Net income before allocation of other activities | 19.4  | 8.0               | 6.9             | 3.9        | (0.9)             | 37.3        |
| Allocation of other activities                   | (0.4)   | (0.2)             | (0.2)           | (0.1)      | 0.9               | ---         |
| <b>Net income for the period</b>                 | <b>19.0</b>   | <b>7.8</b>        | <b>6.7</b>      | <b>3.8</b> | <b>---</b>        | <b>37.3</b> |
| Attributable to shareholders                     | 18.9  | 7.8               | 6.7             | 3.7        | ---               | 37.1        |
| Attributable to participating policyholders      | 0.1   | ---               | ---             | 0.1        | ---               | 0.2         |

\* Includes other segments and intercompany eliminations.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Three months ended March 31, 2005 and 2004 (unaudited)

(in millions of dollars, unless otherwise indicated)

**9- SEGMENTED INFORMATION** (continued)

**Segmented general fund assets**

For the business acquired in 2004, the asset allocation between segments has been done based on the information available to date. When the final analysis will be completed, the purchase price could be allocated differently and consequently the allocation between segments may vary.

**As at March 31, 2005** (unaudited)

|                 | Individual      |                   | Group           |                |                   | Total           |
|-----------------|-----------------|-------------------|-----------------|----------------|-------------------|-----------------|
|                 | Life and Health | Wealth Management | Life and Health | Pensions       | Other activities* |                 |
|                 | \$              | \$                | \$              | \$             | \$                | \$              |
| <b>Assets</b>   |                 |                   |                 |                |                   |                 |
| Invested assets | 4,922.1         | 2,122.7           | 1,101.8         | 2,459.0        | 167.7             | 10,773.3        |
| Goodwill        | 30.5            | 74.3              | 19.9            | ---            | ---               | 124.7           |
| Other assets    | 111.0           | 64.3              | 107.1           | 57.9           | 7.8               | 348.1           |
| <b>Total</b>    | <b>5,063.6</b>  | <b>2,261.3</b>    | <b>1,228.8</b>  | <b>2,516.9</b> | <b>175.5</b>      | <b>11,246.1</b> |

**As at December 31, 2004**

|                 | Individual      |                   | Group           |                |                   | Total           |
|-----------------|-----------------|-------------------|-----------------|----------------|-------------------|-----------------|
|                 | Life and Health | Wealth Management | Life and Health | Pensions       | Other activities* |                 |
|                 | \$              | \$                | \$              | \$             | \$                | \$              |
| <b>Assets</b>   |                 |                   |                 |                |                   |                 |
| Invested assets | 4,788.6         | 2,151.3           | 1,046.1         | 2,462.2        | 161.1             | 10,609.3        |
| Goodwill        | 30.5            | 75.3              | 19.9            | ---            | ---               | 125.7           |
| Other assets    | 122.5           | 75.5              | 66.8            | 56.6           | (5.9)             | 315.5           |
| <b>Total</b>    | <b>4,941.6</b>  | <b>2,302.1</b>    | <b>1,132.8</b>  | <b>2,518.8</b> | <b>155.2</b>      | <b>11,050.5</b> |

**As at March 31, 2004** (unaudited)

|                 | Individual      |                   | Group           |                |                   | Total           |
|-----------------|-----------------|-------------------|-----------------|----------------|-------------------|-----------------|
|                 | Life and Health | Wealth Management | Life and Health | Pensions       | Other activities* |                 |
|                 | \$              | \$                | \$              | \$             | \$                | \$              |
| <b>Assets</b>   |                 |                   |                 |                |                   |                 |
| Invested assets | 4,493.4         | 2,168.4           | 981.8           | 2,418.8        | 128.4             | 10,190.8        |
| Goodwill        | 30.5            | 6.1               | 19.9            | ---            | ---               | 56.5            |
| Other assets    | 129.2           | 73.8              | 64.1            | 64.2           | 71.8              | 403.1           |
| <b>Total</b>    | <b>4,653.1</b>  | <b>2,248.3</b>    | <b>1,065.8</b>  | <b>2,483.0</b> | <b>200.2</b>      | <b>10,650.4</b> |

\* Includes other segments and intercompany eliminations.

**INDUSTRIAL ALLIANCE INSURANCE AND FINANCIAL SERVICES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Three months ended March 31, 2005 and 2004 (unaudited)

(in millions of dollars, unless otherwise indicated)

**10- PREMIUMS****Three months ended March 31, 2005 (unaudited)**

|                              | Individual      |                   | Group           |              | General Insurance | Total        |
|------------------------------|-----------------|-------------------|-----------------|--------------|-------------------|--------------|
|                              | Life and Health | Wealth Management | Life and Health | Pensions     |                   |              |
|                              | \$              | \$                | \$              | \$           | \$                | \$           |
| Invested in general fund     | 188.7           | 74.5              | 160.7           | 45.8         | 22.4              | 492.1        |
| Invested in segregated funds | ---             | 275.1             | ---             | 85.1         | ---               | 360.2        |
| <b>Total</b>                 | <b>188.7</b>    | <b>349.6</b>      | <b>160.7</b>    | <b>130.9</b> | <b>22.4</b>       | <b>852.3</b> |

**Three months ended March 31, 2004 (unaudited)**

|                              | Individual      |                   | Group           |              | General Insurance | Total        |
|------------------------------|-----------------|-------------------|-----------------|--------------|-------------------|--------------|
|                              | Life and Health | Wealth Management | Life and Health | Pensions     |                   |              |
|                              | \$              | \$                | \$              | \$           | \$                | \$           |
| Invested in general fund     | 179.9           | 78.4              | 152.0           | 47.3         | 18.9              | 476.5        |
| Invested in segregated funds | ---             | 246.9             | ---             | 78.0         | ---               | 324.9        |
| <b>Total</b>                 | <b>179.9</b>    | <b>325.3</b>      | <b>152.0</b>    | <b>125.3</b> | <b>18.9</b>       | <b>801.4</b> |

**11- MODIFICATION TO THE GUARANTEES****Coverage**

In the management of its operations, the Company must sometimes cover certain defaults of credit or payment conditions.

On February 8, 2005, the Company issued an irrevocable letter of credit containing an annual automatic renewal clause until April 2007. This additional coverage represents a maximum amount of \$1.0.

**12-SUBSEQUENT EVENT**

On April 22, 2005, Industrial Alliance Securities Inc, a securities brokerage subsidiary of the Company, completed the acquisition of certain assets of KingsGate Securities Limited for \$1.8.

**13- COMPARATIVE FIGURES**

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

**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 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 has operations across Canada. Industrial Alliance insures over 1.7 million Canadians, employs over 2,600 people and manages and administers \$30 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 held its conference call to present its results on Wednesday, May 4, 2005, at 11:30 a.m. (ET). A replay of the conference call is available for a period of 60 days 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 First Quarter 2005*.

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**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.