

MEMBER GUIDE

MARCHING INTO *the future*

No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence. For purposes of the Québec *Securities Act* (L.R.Q., Chap.V-1.1), Chapters 7, 8 and 9 of the *Member Guide* constitute a prospectus and, accordingly, give rise to rights of action for damages where the prospectus contains a misrepresentation, provided that such remedy for damages is exercised by the member within the time limits prescribed by that Act. The member should refer to the applicable provisions of that Act for particulars of this right or consult with a legal advisor. The Inspector General of Financial Institutions (Québec) ("IGFI") has reviewed the conversion proposal of Industrial-Alliance Life Insurance Company into a share capital company but makes no recommendation to members with respect to the exercise of their right to vote on the proposal.

August 10, 1999

Une version française de ce guide est disponible sur demande.

The *Member Guide* provides

information on Industrial-Alliance

Life Insurance Company,

a mutual company, and its

proposed conversion to a

share capital insurance company.



**INDUSTRIAL
ALLIANCE**
LIFE INSURANCE COMPANY

August 10, 1999

Dear Sir/Madam:

**Re: Proposal to convert Industrial-Alliance
into a share capital company**

The board of directors of Industrial-Alliance is proposing a very important change for the future of the Company, namely to convert its ownership structure from a mutual insurance company into a share capital insurance company. If approved by the insurance and annuity policyholders, who are also referred to as “members”, this project will give Industrial-Alliance a better access to financial markets to raise the funds necessary to its development.

The conversion will also benefit eligible policyholders since it involves the distribution of common shares of Industrial-Alliance to about 700,000 members of the Company — those who had an insurance policy or annuity policy in force on April 30, 1999. If you are eligible, you may either retain these shares or receive an equivalent amount in cash. It should be noted that the conversion of Industrial-Alliance will not affect in any way the insurance or annuity coverages you now enjoy.

In order to proceed, conversion must be approved by at least two thirds of the members voting at the Special Meeting to be held on Monday, November 8, 1999, at 10:00 a.m., at Palais Montcalm, 995 Place d’Youville, Québec City, Québec. You may vote in person or by proxy. Only members whose policy is in force at the time of the Special Meeting will be entitled to vote.

Member Guide

This *Member Guide* provides details on the conversion proposal of Industrial-Alliance into a share capital company. You are advised to read it carefully before you take any decision regarding the conversion proposal. You are also advised to keep the *Member Guide* until completion of the conversion proposal, and if you are an eligible member, until you receive your pro rata share of the conversion benefits.

The *Member Guide* is comprised of nine chapters. It contains a summary of the conversion proposal as well as sections describing the voting procedures, reasons in support of the conversion proposal, various opinions expressed by the members, the implementation procedure of the conversion and the corporate structure of Industrial-Alliance after conversion.

In chapters 3 and 6, you will find information on the conversion proposal. Chapter 5 describes the distribution plan of the value of Industrial-Alliance upon conversion, while the full text of the conversion proposal appears in Chapter 7. Chapters 8 and 9 present respectively experts’ reports and a description of Industrial-Alliance.

Chapters 1 to 6 reproduce in plain language several components of the formal text of the conversion proposal appearing in Chapter 7. The reader should examine Chapter 7 and, in doubt, consult an advisor. Certain terms and expressions used in this *Member Guide* are defined in the glossary at the end of the document.

Simplified Document and Television Broadcast

To facilitate understanding of the conversion proposal, we have annexed to the *Member Guide* the *Simplified Document*, presenting the proposal in question and answer form. This document provides some of the essential components of the *Member Guide* and is intended to explain the simple acts you have to make to express your choice. You should read it carefully.

If you are a member residing in Québec, you are also asked to watch the special 30 minute information broadcast produced by Industrial-Alliance. This broadcast entitled *En marche vers l’avenir*, presents in plain language the conversion proposal of the Company. It will only be broadcasted in Québec, in French, from September 29, 1999 to the end of October 1999. The broadcasting schedule is set forth in the *Simplified Document* and in your personalized information, also attached hereto.

Personalized Information

The personalized information attached hereto is specific to each member. It contains the number of shares allocated to each eligible member, the proxy form and/or the election form, and information on the activities and information services regarding the proposal. For further information, do not hesitate to call our information centre at 1-877-684-5000.

Key Dates to Remember

The key dates you should remember are as follows:

- | | |
|---|--------------------------|
| • Eligibility Date for conversion benefits: | April 30, 1999 |
| • Deadline to receive proxy forms and election forms: | October 28, 1999 |
| • Special Meeting of Members: | November 8, 1999 |
| • Planned effective date of conversion: | 1st Quarter, 2000 |

Recommendation of the Board of Directors

After an extensive review of all the relevant factors and available opinions, members of the board of directors have unanimously decided to approve the proposal to convert Industrial-Alliance into a share capital company. They consider this conversion in your interest and that of Industrial-Alliance. The board of directors therefore recommends that you vote **yes** to the special resolution approving the conversion of Industrial-Alliance into a share capital company.

Very truly yours,



Raymond Garneau
Chairman of the Board and Chief Executive Officer



Yvon Charest
President and Chief Operating Officer

Notice of a Special Meeting of Members

Members are advised that a special meeting of Industrial-Alliance Life Insurance Company (“Industrial-Alliance”) will be held at the Palais Montcalm, 995 Place d’Youville, Québec City, Québec, at 10:00 a.m. (Québec City time), on Monday, November 8, 1999, in order to submit to the approval of members a special resolution to convert Industrial-Alliance into a share capital company and to deal with any other matter that may be duly submitted to the special meeting or any adjournment thereof. The special resolution to be voted on is the following:

It is resolved that:

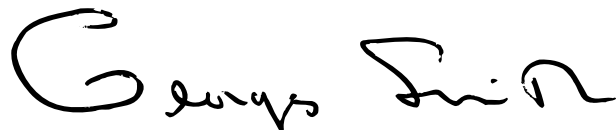
- 1. The conversion proposal described in Chapter 7 of the *Member Guide* be approved.**
- 2. The conversion by-law appearing in Appendix I to the conversion proposal be approved.**
- 3. The directors and officers of Industrial-Alliance be authorized to request that the National Assembly of Québec pass a private bill (“*An Act respecting conversion*”) to authorize, among other things, the conversion under conditions essentially similar to those described in the conversion proposal appearing in Chapter 7 of the *Member Guide*.**
- 4. The directors and officers of Industrial-Alliance be authorized to apply for the issue of letters patent of conversion to make the conversion takes effect pursuant to *An Act respecting conversion*.**

The *Member Guide* contains other information on the conversion proposal and forms an integral part of this notice of a special meeting.

Members who will be unable to attend the special meeting are invited to complete the attached proxy form. Proxy forms must be received at the office of Montreal Trust Company, 1800 McGill College Avenue, Montréal, Québec, H3A 3K9, no later than 5:00 p.m. on Thursday, October 28, 1999.

DATED in Sillery, Québec, on August 10, 1999.

BY ORDER OF THE BOARD OF DIRECTORS

A handwritten signature in black ink, appearing to read "Georges Smith". The signature is fluid and cursive, with the first name "Georges" being more prominent than the last name "Smith".

Georges Smith
Vice-President and General Manager, Corporate Affairs
and Secretary

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For an explanation of some of the terms used herein, please refer to the glossary. If you have questions, do not hesitate to call our toll-free number: 1-877-684-5000.

General information

- The board of directors recommends that Industrial-Alliance Life Insurance Company be converted into a share capital insurance company. This conversion process is also called demutualization.
- This conversion must be approved by the policyholders and will be the subject of a report submitted by the Inspector General of Financial Institutions to the Minister of Finance of Québec.
- The conversion shall take effect only after the coming into force of a private bill passed by the National Assembly of Québec and the issue of letters patent of conversion.
- If the conversion takes place, eligible members, that is, those who held insurance policies in force on April 30, 1999, will either receive common shares of Industrial-Alliance or a cash amount.
- If the conversion is approved, the board of directors expects that the conversion will be concluded by the end of the first quarter of the year 2000.

If you have any questions, do not hesitate to call toll free at 1-877-684-5000.

Recommendation

The board of directors recommends that Industrial-Alliance become a share capital insurance company. This conversion will allow Industrial-Alliance to distribute the full value of the Company to eligible members in the form of common shares or a cash amount, without changing in any way their insurance coverages, annuity payments, surrender values, premiums nor any right to receive policyholder dividends. After the conversion, Industrial-Alliance will benefit from a more flexible access to capital markets.

Review and Approvals

A special meeting of policyholders of Industrial-Alliance will be held at the Palais Montcalm, 995 Place d'Youville, Québec City, Québec, on Monday, November 8, 1999, at 10:00 a.m., to allow members to vote on the conversion proposal. The conversion proposal must be approved by two-thirds of the votes cast, including those cast by proxy.

The Inspector General of Financial Institutions ("IGFI") has reviewed the Industrial-Alliance proposal for conversion into a share capital insurance company, but is making no recommendation to members on the proposal. Further to his review, the IGFI will file a report with the Minister of Finance of Québec.

The conversion will take effect only after the coming into force of a private bill ("*An Act respecting conversion*") to be passed by the National Assembly of Québec and the issue of letters patent of conversion.

Date of the Conversion

If the conversion proposal is approved, the board of directors expects that the conversion will be concluded by the end of the first quarter of the year 2000. The conversion will come into effect on the date of the letters patent of conversion.

Effects of the Conversion

Pursuant to the conversion proposal, the following will occur on the effective date of the conversion:

- Industrial-Alliance will become a share capital insurance company.
- The rights of the members, except to elect one third of the members of the Board by the participating policyholders, will terminate, but all the rights stipulated in their insurance policies will be fully maintained.
- Eligible members will receive common shares of Industrial-Alliance or a cash amount.
- The accounts of Industrial-Alliance will be modified to take into account the fact that Industrial-Alliance will have shareholders.
- Outstanding preferred securities will be replaced with preferred shares of Industrial-Alliance having the rights, privileges, restrictions and conditions set forth in Appendix I of the conversion proposal.

Newly issued common shares of Industrial-Alliance will be sold to new investors in an initial public offering ("IPO"). The net proceeds of the IPO will be used to pay the cash amounts distributed in connection with the conversion, to create an organized market for the common shares of Industrial-Alliance, and possibly to raise additional funds for general corporate purposes.

Both The Montreal Exchange and The Toronto Stock Exchange have conditionally approved Industrial-Alliance's application for the listing of its common shares if the conversion takes place. Following the conversion, no change will be made to insurance coverages, annuity payments, surrender values or policy premiums, nor to any right to receive policyholder dividends.

Method for Distributing Shares and Cash Amounts

All eligible members, being those who held an insurance policy issued by Industrial-Alliance that was in force on April 30, 1999, will be allocated a cash amount or a number of common shares as part of the conversion. This allocation will be made according to the formulas established in the conversion proposal outlined in Chapter 7 of this *Member Guide*.

Most eligible members will have the opportunity to indicate their preference to receive common shares or a cash amount. Eligible members whose address is outside Canada will receive a cash amount and will not be entitled to receive shares. It is important that eligible members return the election form accompanying this *Member Guide* to indicate their preference to Industrial-Alliance.

Eligible members who have elected to receive a cash amount will receive a cheque by mail, subject to the conditions and limits stipulated in the conversion proposal. The cash amount will correspond to the number of shares which they might otherwise receive, multiplied by the share price fixed for the initial public offering.

Eligible members who have elected to receive shares will receive a statement by mail indicating the number of shares registered in their name. At any time after the conversion, however, eligible members may ask Montreal Trust Company to send them a share certificate.

Eligible members who are entitled to receive fewer than 100 common shares and who have not returned their election form so that it is received by October 28, 1999 will be deemed to have elected to receive a cash amount. Eligible members who are entitled to receive 100 common shares or more and who have not returned their election form so that it is received by October 28, 1999 will be deemed to have elected to receive common shares. The board of directors will establish the total amount of the distribution of the conversion benefits in the form of cash amounts, which will not be greater than the gross proceeds from the IPO. Despite the expressed or deemed election by eligible members to receive a cash amount, some eligible members might not receive a cash amount, depending, among other things, on the proceeds from the IPO. In such case, these members will receive common shares.

A summary of Canadian federal and Québec tax considerations for eligible members and the effect of such distribution on the right of eligible members to receive certain government benefits can be found in Chapter 8.

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How to Vote on the Proposal

- The conversion of Industrial-Alliance into a share capital company requires the approval of the conversion proposal by the members, that is, those holding insurance policies.
- If you hold an insurance policy from Industrial-Alliance on November 8, 1999, you are a member of Industrial-Alliance and you have the right to vote.
- Only persons who were members at April 30, 1999, being eligible members, have the right to receive conversion benefits.
- A special meeting will be held at 10:00 a.m. on Monday, November 8, 1999, at the Palais Montcalm, 995 Place d'Youville, Québec City, Québec.
- If you cannot attend the meeting, you are invited to fill out the proxy form attached to this *Member Guide* and return it so that it is received no later than Thursday, October 28, 1999.
- If you are an eligible member and you have received an election form, you must fill it out and return it so that it is received no later than Thursday, October 28, 1999 to indicate your preference between common shares and a cash amount.

If you have any questions, do not hesitate to call toll free at 1-877-684-5000.

Purpose of the Vote

The conversion of Industrial-Alliance into a share capital company requires the approval of the conversion proposal by the policyholders. During a special meeting, policyholders will have to vote *for* or *against* the conversion proposal by voting on the following special resolution:

It is resolved that:

- 1. The conversion proposal described in Chapter 7 of the *Member Guide* be approved.**
- 2. The conversion by-law appearing in Appendix I to the conversion proposal be approved.**
- 3. The directors and officers of Industrial-Alliance be authorized to request that the National Assembly of Québec passes a private bill (“*An Act respecting conversion*”) to authorize, among other things, the conversion under conditions essentially similar to those described in the conversion proposal appearing in Chapter 7 of the *Member Guide*.**
- 4. The directors and officers of Industrial-Alliance be authorized to apply for the issue of letters patent of conversion to make the conversion takes effect pursuant to *An Act respecting conversion*.**

In order for the conversion to take place, this resolution must be approved by at least two-thirds of the votes cast at the special meeting, including votes by proxy. The conversion proposal is summarized and explained in Chapters 1 to 6 of this *Member Guide* and the full text thereof will be found in Chapter 7.

Who May Vote?

The holders of an insurance policy issued by Industrial-Alliance are members of Industrial-Alliance.

Only those persons who are members of the Company on November 8, 1999, date of the special meeting, have the right to vote. Most of these persons have received this document with a proxy form and a personalized letter. Members are entitled to one vote each, regardless of the number of policies they own.

Date and Location of the Vote

A special meeting of members will be held at 10:00 a.m. on Monday, November 8, 1999 at the Palais Montcalm, 995 Place d’Youville, Québec City, Québec.

Members can vote in person at the special meeting or by returning the proxy form attached to their personalized information. The form, duly completed and signed, must be received by Montreal Trust Company no later than 5:00 p.m., Thursday, October 28, 1999, at the address indicated below.

How to Vote in Person?

To vote in person at the special meeting, the member must register by giving his full name and address to an attendant. Registered members will vote by show of hands or secret ballot form during the special meeting. A corporation holding a policy may vote at the meeting by being represented by one of its authorized representatives. If you think you might need particular assistance for reasons of incapacity, please communicate with Industrial-Alliance toll free at 1-877-684-5000.

How to Vote if You Cannot Attend?

If you cannot attend the meeting, you are invited to fill out the proxy form and return it. The proxy form, with a return envelope, is attached to the personalized information included with this document.

By completing and signing the proxy form, you are asking one person to vote on your behalf and according to your instructions. In the space on the form provided for this purpose, you can appoint a director of Industrial-Alliance, either the Chairman of the Board and Chief Executive Officer or, failing him, a vice-chairman of the board appointed by the board of directors or, in place and stead of either of them, or a person of your choice, to vote on your behalf.

If you appoint a director of Industrial-Alliance, you can give him instructions as to how to vote on your behalf by filling out the attached proxy form. **If you sign and return the proxy form without indicating a choice, the director who will represent you will vote YES on the conversion proposal.**

If you appoint a person other than a director of Industrial-Alliance without expressing your choice, this person may vote on your behalf as he or she sees fit.

By giving someone the right to vote on your behalf, whether a director of Industrial-Alliance or another person, that person may vote on any other matter duly raised at the special meeting.

The proxy forms must be signed, dated and returned in the return envelope provided for this purpose to:

Montreal Trust Company
1800 McGill College Avenue
Montréal, Québec
H3A 3K9

If there are several policyholders for a single policy, the proxy form must be signed by all the policyholders.

It is also possible to fax your duly completed proxy form to Montreal Trust Company at the following number: 514-982-7877. Your proxy form must be received by Montreal Trust Company no later than 5:00 p.m. on Thursday, October 28, 1999.

If you wish to change your vote or cancel your proxy form, you must send a written notice to that effect to the head office of Industrial-Alliance or to Montreal Trust Company at any time until October 28, 1999. The new proxy form must be received by Montreal Trust Company no later than 5:00 p.m., Thursday October 28, 1999. You can also revoke your proxy by submitting a written notice in person to the chairman of the special meeting. If applicable, the proxy form bearing the most recent date shall prevail.

If you have misplaced your proxy form, please contact Industrial-Alliance toll free at 1-877-684-5000, and another form will be sent to you.

Counting the Votes

Montreal Trust Company will receive, examine and count returned proxies. They will also register the policyholders at the special meeting in order to count and report on the vote.

Election Form

For eligible members (except for foreign members), your personalized information contains an election form on which you can indicate your preference for common shares or a cash amount. Despite the expressed or deemed election by eligible members to receive a cash amount, some eligible members might not receive a cash amount, depending, among other things, on the proceeds from the IPO. In such case, these members will receive common shares.

It is important to complete and return this election form so that it is received no later than 5:00 p.m., Thursday, October 28, 1999 to indicate your preference. If you have the right to elect to receive common shares or a cash amount, and you are entitled to receive fewer than 100 common shares and your election form has not been received, duly filled, by 5:00 p.m., Thursday, October 28, 1999, you will be deemed to have elected to receive a cash amount. Otherwise, you will be deemed to have elected to receive common shares. You can send the election form to Montreal Trust Company in the envelope provided for such purpose or fax it to this number: 514-982-7877.

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Why Should Industrial-Alliance Become a Share Capital Insurance Company?

- Industrial-Alliance is a mutual life and health insurance company, with the primary mission of offering its policyholders financial protection in the event of death, disability, illness or upon retirement.
- The mutual form of the Company does not allow policyholders to benefit fully from the value of the Company. With its conversion into a share capital insurance company, the value of the Company can be distributed to eligible members in the form of common shares or cash amounts.
- Several advantages result from becoming a company that belongs to shareholders:
 - the value of the Company is made available to eligible members
 - more flexible access to capital markets
 - increased ability of the Company to make acquisitions and create alliances
 - greater management accountability
 - more competitive compensation
- In addition, there are certain possible disadvantages:
 - the risk that the Company will become the target of a takeover bid
 - the risk of conflict between the interests of policyholders and the interests of shareholders
 - the additional administrative costs resulting from the management of a large number of shareholders
- The board of directors is of the opinion that conversion best serves the interests of the policyholders, considered as a whole, and the interests of the Company.

If you have any questions, do not hesitate to call toll free at 1-877-684-5000.

Overview

Industrial-Alliance, whose origins date back to 1892, is a mutual life and health insurance company, the primary mission of which is to offer its policyholders financial protection in the event of death, disability, illness, or upon retirement. Industrial-Alliance is the result of the 1987 merger of two life and health insurance companies: L'Industrielle, formed in 1905 in Québec City, and Alliance, founded in 1892 in Montréal. In 1996, Industrial-Alliance merged with Solidarity, a Québec City life insurance company.

Industrial-Alliance offers a wide line of insurance products, retirement and savings plans, and other financial products. These products are distributed to individuals, on an individual basis, and to businesses and groups, on a group basis.

Today, the Company insures more than a million and a half persons and Industrial-Alliance has nearly 700,000 policyholders and over 2,000 employees. The Company ranks seventh among life insurance companies in Canada in terms of general funds assets, according to the publication *Canadian Insurance* (1999 Annual Review of Statistics) and taking into account the recent merger of two competitors. For a description of the activities and the financial condition of the Company, please refer to Chapter 9.

What is the Conversion?

Conversion is also referred to as “demutualization”. Conversion is the structural change of a mutual insurance company into a share capital company. Since the beginning of the 1980's, several mutual life insurance companies in the United States, the United Kingdom, Australia, and South Africa have been converted into share capital insurance companies. In Canada, four major mutual insurance companies have completed demutualization or, like Industrial-Alliance, are in the process of demutualization.

A mutual company like Industrial-Alliance is owned in a certain way by its policyholders or members. The members of Industrial-Alliance have voting rights and ownership interests in the Company. However, these rights and interests cannot be traded or exchanged and cease when the underlying policies expire. As part of the conversion, common shares or a cash amount are allocated to eligible members in return for their voting rights and their ownership interests.

Thus, the conversion into a share capital company allows eligible members to receive financial benefits. In effect, upon such a conversion, the value of the Company to which members' rights are attached is converted to the benefit of eligible members into common shares in the Company or a cash amount. Following conversion, members who have obtained common shares of Industrial-Alliance may choose to retain or sell such shares.

It is very important to understand that this conversion of the Company's structure is being performed without any change to insurance coverage or annuity income. Thus, all the coverages stipulated in the policies are maintained without change. As well, premiums and benefits are in no way affected by this conversion.

With the conversion of Industrial-Alliance, eligible members, while preserving all their insurance or annuity protection, will thus be able to gain access to the value of their voting rights and ownership interests in Industrial-Alliance in the form of common shares or cash amounts. This is why the value of Industrial-Alliance is said to be “released” so that eligible members can have access to the assets they have helped build.

Advantages of Conversion to a Share Capital Company

There are several advantages to becoming a share capital insurance company. These advantages can be classified into two categories: advantages for eligible members and advantages for Industrial-Alliance and its policyholders.

Advantages for Eligible Members

For eligible members, the principal advantage of conversion is that it gives them access to the value of Industrial-Alliance. Conversion is intended to dissociate the interests as policyholder from the rights as member. With the conversion of Industrial-Alliance, a mutual insurance company, into a share capital company, members' rights are converted into common shares of Industrial-Alliance or a cash amount. The common shares of Industrial-Alliance will be listed on The Montreal Exchange and The Toronto Stock Exchange, so that members who receive shares upon conversion may sell them later, at their discretion. In relation thereto, The Montreal Exchange and The Toronto Stock Exchange have conditionally approved Industrial-Alliance's application for the listing of its common shares if the conversion takes place.

Eligible members' rights as insureds are preserved in their entirety. No change is made in the premiums, benefits, annuities or the right to receive policyholder dividends. In addition, the financial strength of Industrial-Alliance is not affected.

Advantages for Industrial-Alliance and its Policyholders

For Industrial-Alliance, there are many advantages to conversion. In particular, conversion facilitates its access to capital markets, increases its capacity to make acquisitions and create alliances, puts greater emphasis on management accountability, and allows it to offer more competitive compensation. Thus, the policyholders of Industrial-Alliance will also benefit from conversion, since the benefits that Industrial-Alliance will draw from conversion will allow it to increase its financial strength.

- *Facilitate access to capital markets* — As a mutual life and health insurance company, Industrial-Alliance has a limited capacity to raise capital because it cannot issue common shares, one of the most common source of capital on the market. By converting the mutual insurance company into a share capital company, it becomes possible to issue common shares. This access to the capital markets will allow Industrial-Alliance to obtain more easily the financing necessary for its growth. By expanding the sources of capital, the conversion into a share capital company will allow the Company greater financial flexibility, which will allow optimal management of its capital structure.
- *Increased capacity of Industrial-Alliance to make acquisitions and create alliances* — With a more flexible access to capital markets, Industrial-Alliance will be in a better position to finance strategic acquisitions. In addition, and subject to applicable regulations, Industrial-Alliance will have the desired flexibility to fund any future acquisition through the issuance of common shares of Industrial-Alliance rather than in cash. It will also be able, again within regulatory limits, to exchange common shares with another company as part of a strategic alliance. Currently, Industrial-Alliance is not negotiating any such acquisition or alliance.
- *Increased accountability* — The board of directors is of the opinion that a share capital insurance company offers an additional incentive to pursue sound corporate management. Shareholders' ownership and voting rights are a way to improve management's accountability and to strengthen the Company's management philosophy. Given that the value of the common shares of Industrial-Alliance will be directly related to the financial return on its activities, shareholders will expect Industrial-Alliance to create value through solid and stable growth in profits, while continuing to plan and invest for long-term growth. Management's decisions will be analyzed in depth by investors and will have an effect on the price of the common stock of Industrial-Alliance. Currently, this kind of control of Industrial-Alliance is less present since policyholders are generally less concerned with their rights as members than with their rights as insureds; they participate very little in the internal affairs of Industrial-Alliance, and the profitability and growth of the Company are not their primary concern.
- *More competitive compensation* — The demand for competent senior managers and professionals is very strong in the financial services industry. Industrial-Alliance will be able, one year after its common shares are listed on the Exchanges, to use these shares as an incentive. Industrial-Alliance intends to implement such measures, but the details have not yet been defined. These plans will align the financial interests of shareholders and of management and will help the Company attract and retain top-level managers.

Disadvantages of Conversion

There may be certain disadvantages to conversion. Here are the three most frequently cited:

- the risk that Industrial-Alliance be the target of a takeover bid
- the risk of conflict between the interests of policyholders and the interests of shareholders
- the additional administrative costs arising from the management of a large number of shareholders

The risk that Industrial-Alliance be the target of a takeover bid — Upon conversion into a share capital company, the ownership of a company is transferred from the members to the shareholders. The shareholders may, if they wish, dispose of their shares. Thus, it is possible for a person to acquire the control of Industrial-Alliance if no protective measure limits the percentage of voting shares that may be held by any one shareholder. *An Act respecting conversion* will provide dispositions to the effect that no person can hold more than 10% of the outstanding voting shares of Industrial-Alliance. The major Canadian federally controlled insurance companies and the chartered banks of Canada

are protected against takeovers by restrictive rules of this type. The federal government is currently reviewing these restrictions. The board of directors of Industrial-Alliance may re-examine this restriction on ownership based on the circumstances, namely if there are changes in legislation governing financial institutions in accordance with the prescribed procedures.

The risk of conflict between the interests of policyholders and the interests of shareholders — Some people fear that, once Industrial-Alliance has been converted into a share capital company, the interests of policyholders will conflict with those of shareholders, which would result in a change in the culture of the Company. While policyholders are primarily looking for the long-term stability of the Company, some people fear that shareholders are primarily looking for Industrial-Alliance to create value for them through solid and stable short-term growth.

As a general rule, it is in the interests both of the policyholders and the shareholders that the Company be solid and profitable. Everyone is aware that it is only by continuing to offer products and services that meet the needs of policyholders, at competitive prices, that Industrial-Alliance can grow and increase its value for shareholders. It is the role of the board of directors and management to ensure that shareholders' and policyholders' interests are protected and accommodated. Thus, Industrial-Alliance's commitment to maintaining solid relations with its policyholders as well as a high quality of customer service will in no way be modified by its conversion into a share capital company.

The additional administrative costs arising from a share capital company — A share capital company must assume certain costs that a mutual company does not have to pay. In particular, it must update the shareholders' register and mail shareholders dividends, tax forms and the information documents prescribed by regulatory agencies. However, these costs should not significantly increase the operating costs of Industrial-Alliance. Industrial-Alliance believes that the advantages of the existence of a public market for its common shares will outweigh the costs related to being a share capital company.

Effect on Non-eligible Members

Industrial-Alliance has publicly announced that April 30, 1999 would be the eligibility date, that is, only persons holding policies in force on this date would be authorized to receive conversion benefits.

Subject to exceptions set forth in this Member Guide, persons who have become members of Industrial-Alliance after April 30, 1999 will not receive conversion benefits related to the loss of their status as members, once Industrial-Alliance is converted into a share capital company.

In addition, members retain all their rights arising from the policies they hold. There will be no change in their insurance coverages, annuity payments, surrender values, premiums or any right to receive policyholder dividends on policies. Policyholders will also benefit from the competitive position of Industrial-Alliance and the increased financial strength of the Company.

Other Options Considered by the Board of Directors

The board of directors set two objectives when it began to study the different options open to Industrial-Alliance in the context of its strategic plan:

- to strengthen the competitive position of Industrial-Alliance by facilitating its financing
- to give access to the value of Industrial-Alliance to eligible members.

To achieve these two objectives, the board of directors studied three options:

- the full conversion of Industrial-Alliance into a share capital life insurance company
- a partial demutualization of Industrial-Alliance
- maintaining Industrial-Alliance as a mutual life insurance company.

After analyzing these different options, the board of directors concluded that only full conversion would allow it to achieve its two objectives.

Partial demutualization of Industrial-Alliance — In a partial demutualization, the members' ownership interests are transferred from the insurance company, which is converted into a share capital company, to a mutual company holding the shares — or a portion of the shares — of the converted insurance company. This option has been adopted by a certain number of insurance companies in recent years. The principal advantage associated with this option is its

simplicity of application, since there is no distribution to members. This option also offers protection against the possibility of a third-party takeover, since the mutual company must retain control of the insurance company.

The principal disadvantage of a partial demutualization is that it allows no distribution of the value of their ownership interests to members, whether in shares or in cash. In addition, the insurance companies that have taken this route have not, in practical terms, expanded their access to capital markets. This option makes the achievement of the first of the two objectives fixed by the board of directors uncertain and does not allow to achieve the second.

Maintaining Industrial-Alliance as a mutual life insurance company — The *status quo* does not achieve either of the two objectives set by the board of directors. Not only does the fact of being a mutual company not give members access to the value of Industrial-Alliance, it also does not allow access to capital markets through the issue of common shares. In the current environment, the board of directors believes that access to capital markets has become a key objective for the Company.

Why the Board of Directors is Recommending Conversion

Considering the foregoing and, in particular, the desire to give eligible members the full value of their voting rights and ownership interests, and after analyzing all the advantages and disadvantages of the possible options, the members of the board are of the opinion that conversion will better serve the interests of members in general and the interests of Industrial-Alliance.

What Will Happen if the Members Do Not Approve the Conversion Proposal

If more than one third of the members voting on the conversion proposal vote against it, conversion will not take place, and:

- Industrial-Alliance will remain a mutual life insurance company
- there will be no distribution of common shares of Industrial-Alliance or cash amounts
- the control of Industrial-Alliance will remain in the hands of members.

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Review and Approval of the Industrial-Alliance proposal

- In order for Industrial-Alliance to be converted to a share capital insurance company, it must receive the approval of the members.
- The Inspector General of Financial Institutions has reviewed the conversion proposal. Further to his review, he will file a report with the Minister of Finance of Québec.
- Industrial-Alliance will request that the National Assembly of Québec pass a private bill to authorize conversion. Following that, Industrial-Alliance will request the issue of letters patent to make conversion take effect.
- In addition to preparing and distributing this *Member Guide*, Industrial-Alliance has implemented a communication plan to ensure that policyholders are fully informed about the conversion proposal and the importance of exercising their voting right. The communications initiatives include press releases, mailings to policyholders, focus group research, policyholders' meetings and a television broadcast in the Province of Québec.
- Policyholders can obtain more information about the conversion proposal by contacting Industrial-Alliance at 1-877-684-5000 or writing to the following e-mail address: avenir@que.inalco.com

Review Process by the Regulatory Agencies Prior to Completion of Conversion

In order for Industrial-Alliance to be converted into a share capital insurance company, it must receive the approval of its policyholders.

The Inspector General of Financial Institutions (“IGFI”) has reviewed Industrial-Alliance’s proposal to convert to a share capital insurance company, but is making no recommendation to policyholders with respect to how to exercise their voting right. Further to his review, the IGFI will file a report with the Minister of Finance of Québec.

Industrial-Alliance must ask the National Assembly of Québec to pass *An Act respecting conversion*. This act will authorize the conversion of Industrial-Alliance into a share capital insurance company. Conversion will take effect on the date of the letters patent of conversion issued pursuant to *An Act respecting conversion*.

The board of directors could abandon the proposal before the issue of the letters patent of conversion for any reason whatsoever, particularly if the conversion would have significant negative consequences for the members in general or for Industrial-Alliance.

The securities regulatory authorities in Canada have granted Industrial-Alliance permission to issue common shares to the eligible members without sending them a prospectus. In Québec, Chapters 7, 8 and 9 of this document constitute a prospectus.

Both The Montreal Exchange and The Toronto Stock Exchange have conditionally approved Industrial-Alliance’s application for the listing of its common shares if the conversion takes place.

The Initiatives Undertaken by Industrial-Alliance to Inform its Members about the Conversion Proposal

Industrial-Alliance has implemented a communication plan designed to inform members about the proposed conversion so that they can make informed decisions and vote in all confidence at the special meeting. The communication plan is also intended to inform and train the representatives and employees of Industrial-Alliance so that they fully understand the different steps in the completion of conversion and can adequately inform members. In addition, Industrial-Alliance has given its members opportunities to share their comments about the conversion of Industrial-Alliance into a share capital company.

Communications initiatives

In a March 8, 1999 press release, Industrial-Alliance announced that, at the request of the board of directors, it was studying a project to convert the Company into a share capital company. This decision was followed by a communication plan, which extends until the end of the conversion process, to inform policyholders about the decisions of the board of directors, the progress of the private bill, and the different steps in the conversion project.

In May and June of 1999, Industrial-Alliance issued press releases and held a press conference in order to announce the eligibility date, the decision of the board of directors to approve the conversion project, and the eligibility conditions for policyholders.

As of June 1, 1999, Industrial-Alliance established an information centre with a toll-free telephone number. The dialogue that has been established with policyholders has allowed the Company to update the communication plan by adding new ideas and answers to questions raised by policyholders. And since the beginning of June, the Internet site of Industrial-Alliance (www.inalco.com) has included information on the conversion of Industrial-Alliance into a share capital company. This Internet site features questions and answers about conversion, press releases, and links to the information centre and the sites of the federal government dealing with the conversion of insurance companies into share capital companies. The e-mail address (avenir@que.inalco.com) is also available.

In June and July 1999, Industrial-Alliance initiated an information campaign aimed directly at policyholders in major French and English daily newspapers and magazines in Québec, the Atlantic provinces and Ontario outlining the decision of the board of directors, the process for converting the Company and reinstatement rights for eligible members. Hence, policyholders were informed that they would receive an information package in coming months and were invited to consult the Internet site and to use the feedback channels made available to them by Industrial-Alliance.

Since July 1999, the Company has been enclosing an information bulletin in its regular mailings in order to explain the proposed conversion in question and answer form. This bulletin also invites policyholders to contact the information centre and to consult the Internet site for more about the conversion.

In order to reach as many policyholders as possible, a 30-minute television program will be broadcasted in the Province of Québec several times in October 1999. This television program will present information about the conversion project.

In October 1999, public information meetings will be held for policyholders. At that time, the management of Industrial-Alliance will present the conversion proposal and will answer questions from the audience. These meetings will be held in Québec City on Wednesday, October 6, 1999, at 7:00 p.m., at the Palais Montcalm, 995 Place d'Youville and in Laval on Thursday, October 7, 1999, at 7:00 p.m., at the Sheraton Laval, 2440 Autoroute des Laurentides. A notice of these meetings will be published in the major daily newspapers.

On November 8, 1999, Industrial-Alliance will hold its special meeting in Québec City, Québec. In the weeks preceding this event, it will publish announcements in major national newspapers as a reminder and notice of the meeting of members.

In addition, different communications programs have been prepared in order to support the group policy underwriters and inform the representatives and employees of Industrial-Alliance and the media about the conversion proposal.

In June 1999, meetings were held with brokers and with group insurance and annuity underwriters in Montréal and Québec City. The purpose of these meetings was to inform the brokers and group insurance underwriters about the conversion and its effects, listen to their comments, and identify their communications needs with group policyholders.

Management has held general information meetings with its representatives and employees during the months of May and June to inform them about the decisions of the board of directors, the steps and the consequences of conversion. Small group meetings were also held to answer employees' questions.

Since June 1999, the Industrial-Alliance Intranet site, which is accessible to its representatives and employees, has included information on the conversion of the Company into a share capital company. Special editions of the in-house publication *Tandem* dealing with conversion have also been distributed to its representatives and employees. Industrial-Alliance has also distributed other information documents on the conversion to its representatives for their own use and for distribution to their clients, in particular, a folder answering the most frequently asked questions and a booklet presenting the conversion proposal in its entirety.

A tour of the agencies has been organized for September 1999 to explain this guide and the attached documentation so that agents can answer customers' questions.

To ensure broad distribution of quality information on the process undertaken by Industrial-Alliance and reach more policyholders, press conferences, individual meetings with journalists and meetings with the print and electronic media have been held by spokespersons for the Company.

Finally, Industrial-Alliance has organized discussion groups and it has retained an independent research company to hold focus group meetings with policyholders. The purpose of this research was to gain a better understanding regarding policyholders' concerns about conversion.

These focus groups, along with the implementation of the information centre and the Internet site, have given policyholders an understanding of the conversion process and allowed them to express their concerns. These policyholders have provided valuable insights and asked important questions. Some of the questions and concerns and the most frequent comments are presented below.

Comments from Members Regarding Conversion

Frequently asked questions

The questions asked by members can be classified into four main categories. Questions and answers are presented below.

Will my insurance policy or my annuity, my benefits or my retirement income be changed following conversion?

The answer to this question is no. No change will be made to the insurance coverages, premiums, benefits, retirement income, annuities, surrender values or any right to receive dividends on policies because of conversion. The only changes will be to voting rights and ownership interests in Industrial-Alliance, which will pass from policyholders to shareholders.

Am I entitled to receive shares or a cash amount?

Several members have asked questions about their eligibility. You will find the answer to most of these questions in Chapter 5, under the heading *Who has the Right to Receive Shares or a Cash Amount?* Essentially, all eligible members as of April 30, 1999 will be allocated a value in the form of common shares or a cash amount, including those who signed an insurance application form before May 1, 1999 and whose policy was issued after that date, and those who, under certain conditions, have reinstated their policy.

How much am I going to receive in the form of shares or a cash amount?

In Chapter 5, the section *Method for Distributing Value Among Eligible Members* explains the formula for calculating the allocation of common shares and cash amounts. Essentially, all eligible members will be allocated a value in the form of common shares or a cash amount. The number of common shares to be allocated to eligible members is comprised of two components: a fixed portion relating to the voting right, and a variable portion that takes into account the features of the eligible policies. It is currently impossible to establish the value of the common shares or the cash amount. On this subject, see in Chapter 5 the section entitled *What Would the Value of the Shares or the Cash Amount Be?*

Why does Industrial-Alliance want to become a share capital company?

Chapter 3, entitled *Why Should Industrial-Alliance Become a Capital Stock Insurance Company?* explains, among other things, the advantages of conversion. Essentially, for eligible members, conversion will give them access to the value of the Company, a value to which they have contributed. For the Company, conversion represents a means of growth through access to the capital markets and allows it to better compete with other Canadian insurance companies.

Comments expressing concerns

In addition to the questions asked by policyholders, Industrial-Alliance received certain comments from members expressing their concerns. These concerns and the Company's answers are reproduced below:

- *Tax consequences on income* — Several policyholders have shared with us their concerns about the tax effects and consequences on their income or government benefits. The value of the common shares received by a policyholder will be taxable only when these common shares are sold; in general, the full sale price will be treated at that time as a capital gain. If a policyholder receives a cash amount, this amount will be considered a taxable dividend in the year it is received. For example, a policyholder who receives a cash amount during the year 2000 must include it on his tax return for such year.

In addition, eligibility for several government programs and tax credits is based on the income or assets of the taxpayer. The ownership of shares, their sale or the receipt of a cash amount could either reduce these benefits and credits for the current year, or for a subsequent year, or require the reimbursement of certain benefits for the current year. Industrial-Alliance recommends that its clients consult the relevant government agencies or their tax advisor to determine any effect on their particular situation.

- *Risk of conflict between the interests of members and the interests of shareholders* — Some people fear that management of the Company will consider the interests of shareholders before the interests of policyholders. Obviously in a share capital company shareholders want a good return on their investments as well as a solid and profitable company. However, a good return can be obtained only by continuing to offer quality products and services that meet the needs of policyholders at competitive prices. Thus, the Company can increase its sales and its value while protecting the interests of both shareholders and

policyholders. The role of the board of directors and management is to make sure that shareholders' and policyholders' interests are protected and accommodated. Following conversion, at least one third of Industrial-Alliance's directors will be elected by policyholders with participating policy.

- *Risk that Industrial-Alliance will be the target of a takeover bid* — Some policyholders have expressed their concern about the risk that Industrial-Alliance may be the target of a third-party takeover bid. When a mutual company is converted into a share capital company, the ownership of the Company is transferred from policyholders to shareholders. Shareholders may dispose of their shares if they wish to. Therefore, it is possible for a person to acquire the control of the Company if no protective measure limits the percentage of voting shares that may be held by any one shareholder. *An Act respecting conversion* will contain provisions to the effect that no person can hold more than 10% of the outstanding voting shares of Industrial-Alliance. The federal legislation that governs the conversion of federally-regulated Canadian insurance companies presently contains a prohibition of this type depending on the size of the companies. The federal government is currently reviewing these restrictions. The board of directors of Industrial-Alliance will be able to review this restriction with respect to ownership as needed and depending on the circumstances, including if there are any changes in the laws governing financial institutions, by following the prescribed procedures.

Favourable comments about conversion

A large number of members have expressed favourable comments about conversion. We must emphasize that the favourable comments about the proposal outnumbered the concerns. The following are the principal comments on the proposal from policyholders and other stakeholders favourable to the conversion.

- *The possibility to become a shareholder* — Several policyholders expressed satisfaction about the possibility of becoming first-time shareholders in a company and earning shareholder dividends. Those same policyholders said they were satisfied with the decision of the board of directors to go ahead with the proposal to convert the Company into a share capital company.
- *Conversion will allow the Company to grow* — Some policyholders have said that they prefer the proposed structure rather than the current structure since it will allow the Company to grow and expand because it will have access to capital markets. They said they are happy that Industrial-Alliance has made the decision to convert to a share capital company since it will be able to compete with the other major Canadian insurance companies by continuing to offer products that meet customers' needs.
- *A distribution that takes everyone's contribution into account* — Several policyholders said they are satisfied with the principles underlying the distribution formula proposed by the Company. Thus, conversion will allow all those with a valid policy as of April 30, 1999, participating or non-participating, to access the value of Industrial-Alliance.

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Distribution of Value to Eligible Members

- The value of Industrial-Alliance will be distributed to eligible members, that is, persons holding an insurance policy from Industrial-Alliance as of April 30, 1999.
- In order to determine how the value will be divided among eligible members, a formula that takes into account the two basic aspects of their relationship with Industrial-Alliance will be used:
 - their voting right
 - the relative contribution of their policies to the value of Industrial-Alliance
- The value will be distributed among eligible members in the form of common shares of Industrial-Alliance or a cash amount.
- When the conversion proposal takes effect, Industrial-Alliance will complete an IPO for its common shares in order to raise funds, a portion of which will be paid to eligible members who will receive a cash amount.
- The cash amount paid to eligible members will be equal to the number of common shares that each one would have received if no cash amount were paid, multiplied by the initial offering price of the shares at the time of the IPO.
- If you are an eligible member and you have received an election form, it is important that you indicate your preference for common shares or a cash amount and that the form is received no later than Thursday, October 28, 1999.
- The prices at which the common shares will be traded when they are listed on The Montreal Exchange and The Toronto Stock Exchange will probably be different from the initial offering price. In relation thereto, The Montreal Exchange and The Toronto Stock Exchange have conditionally approved Industrial-Alliance's application for the listing of its common shares if the conversion takes place.

- The common shares or the cash amount distributed may affect your taxes and certain government benefits.
- Eligible members entitled to receive fewer than 100 common shares, and whose election form has not been received before Thursday, October 28, 1999, shall be deemed to have elected to receive a cash amount.
- Eligible members entitled to receive 100 common shares or more and whose election form has not been received by Thursday, October 28, 1999 will receive common shares.
- If the total of the cash amounts to be distributed exceeds the portion of the IPO that the board of directors determines must be used to pay these cash amounts, there will be an allocation of the cash amounts, giving priority to foreign members, followed by the eligible members entitled to receive the lowest number of shares and progressing in ascending order, until the available sums are completely distributed. The other eligible members will then receive common shares.

If you have any questions, do not hesitate to call toll free at 1-877-684-5000.

Giving Access to the Total Value of Industrial-Alliance

The policyowners' equity (book value) of Industrial-Alliance as a mutual insurance company at June 30, 1999 was 618.5 million dollars. However, the members of Industrial-Alliance who are currently, in a certain way, its owners, do not have access to this value.

The conversion proposal establishes a plan to provide access to the value of Industrial-Alliance to eligible members, without any effect on their insurance or annuity coverages. If the conversion proposal is approved, Industrial-Alliance will issue about 35 million common shares. However, this number of common shares may vary depending on certain circumstances, including the IPO. Under certain conditions, eligible members will be able to receive these shares or a cash amount.

Eligible policyholders are persons who, as of April 30, 1999, held insurance or annuity policies issued by Industrial-Alliance that were in force on such date. You will find more explanations on this subject in this chapter under the heading *Who has the Right to Receive Shares or a Cash Amount?*

Each of the common shares will have a market value determined by several factors; these factors are also explained in this chapter under the heading *What Would the Value of the Shares or the Cash Amount Be?*

When the common shares have been distributed to eligible members, these members will be able to decide when to sell them and receive a cash amount. It is important to emphasize that the cash amount they will receive when they sell the common shares will come from other investors and not from Industrial-Alliance. Both The Montreal Exchange and The Toronto Stock Exchange have conditionally approved Industrial-Alliance's application for the listing of its common shares if the conversion takes place.

Eligible members receiving common shares and other investors purchasing common shares will acquire ownership interests in Industrial-Alliance, which will allow them:

- to vote at shareholders' meetings of Industrial-Alliance
- to receive any dividend declared on their shares.

When the conversion proposal takes effect, Industrial-Alliance will complete an IPO for its common shares. An IPO is the first offering of shares by a company. It creates an organized market for these shares and facilitates the sale and purchase of the shares by eligible members and investors. The IPO will also raise the sums required to pay the cash amounts to be distributed in connection with the conversion and possibly raise additional funds for general corporate purposes.

Despite the expressed or deemed election by eligible members to receive a cash amount, some eligible members might not receive a cash amount, depending, among other things, on the proceeds from the IPO. In such case, these members will receive common shares.

The board of directors will establish the total amount of cash that will be distributed to eligible members, which amount will not be greater than the gross proceeds from the IPO.

Who Has the Right to Receive Shares or a Cash Amount?

If you are an eligible member, and you have received personalized information with this *Member Guide*, and if conversion takes effect, you will receive the number of common shares specified in your document or, if applicable, a cash amount. The number of shares may vary based upon the total number of common shares issued by Industrial-Alliance.

If you are a foreign member, that is, an eligible member whose address is outside Canada, you will receive a cash amount only. Other eligible members will be able to elect to receive common shares or a cash amount by using the form sent with this guide.

Eligible members entitled to receive fewer than 100 common shares and whose election form has not been received by Thursday, October 28, 1999 will be deemed to have elected to receive a cash amount. The other eligible members who are entitled to receive 100 common shares or more, and whose election form has not been received by Thursday, October 28, 1999 will receive common shares.

The cash amounts that will be paid will come from the proceeds of the IPO. The total of the cash amounts paid to eligible members will be limited to the total amount raised at the time of the IPO less any amount the board deems necessary to retain for general corporate purposes.

If the total amount thus available is not sufficient to pay a cash amount to all the eligible members who have made this election or are deemed to have made this election, the sum available will be paid to eligible members, in ascending order, beginning with members whose address is outside Canada, followed by members entitled to receive the smallest number of common shares, until the sum available for this purpose is used up. Eligible members who have not been able to receive a cash amount despite their election will then receive common shares.

At the time of the distribution, Industrial-Alliance may have to take into account the rights of third parties, including in cases where an insured is in a bankruptcy proceeding, or when a policy has been seized or mortgaged.

Industrial-Alliance has declared April 30, 1999 the eligibility date, that is, the date on which the member must have held a policy to have a right to conversion benefits; this date has been fixed to protect the rights of policyholders, taking into account the public announcement of March 8, 1999 by Industrial-Alliance to the effect that it was considering a conversion project.

Therefore, the common shares of Industrial-Alliance or the cash amount will be distributed only to holders of insurance policies (including annuity policies) issued by Industrial-Alliance and in force on April 30, 1999. These may be individual or group policyholders.

Owners of the following policies are considered to hold policies issued by Industrial-Alliance:

- insurance policies issued by Industrial-Alliance
- life insurance policies issued originally by The Canadian Union Insurance Company (“Canadian Union”) and assumed by Industrial-Alliance on December 16, 1996, and those issued by L’Unique, Compagnie d’Assurance-Vie;
- the insurance policies issued by the following companies: Industrial Life Insurance Company, Alliance, a mutual life insurance company and The Solidarity Life Insurance Company (“Solidarity”), all of which were combined in the single entity Industrial-Alliance.

Even if your policy was not in force on April 30, 1999, you could, however, benefit from the conversion:

- if you submitted an application for a new insurance policy no later than April 30, 1999 and your application was accepted after that date and your policy was issued; or
- if your insurance policy was terminated for failure to pay premium after April 30, 1997, but was reinstated following a request to this effect received by Industrial-Alliance at its corporate head office before the end of the reinstatement period and no later than August 2, 1999.

Should the person insured die before April 30, 1999, the policy is not in force on that date even if Industrial-Alliance received the death certificate only after April 30, 1999.

In the case of group insurance policies, only the policyholder is considered to be a member of Industrial-Alliance.¹

A policyholder of Industrial-Alliance who believes he/she is eligible to receive shares or a cash amount and who has not received personalized information from Industrial-Alliance confirming such eligibility can call the Company toll free at 1-877-684-5000.

An Industrial-Alliance policyholder who believes that his/her eligibility, or the number of common shares or the cash amount for which he/she is eligible should be reviewed, must send a written request to the head office of Industrial-Alliance within 30 days after the conversion date. The records of Industrial-Alliance will then be consulted for verification and the Company will inform the interested party in writing. The party may request a review by the review board.

How to Choose Between Shares or a Cash Amount?

The decision to choose between shares or a cash amount is personal and may be based on various factors such as the number of shares allotted, their selling price and marketability, the level of income, the tax situation, the level of savings, the familiarity with the stock markets, the risk tolerance, the value of the shares and their potential return, the governmental benefits received and age. You should consult an investment advisor to assist you in your decision.

¹ There is an exception for group RRSP's. See paragraph 8.6 of Chapter 7.

Method of Distributing Value Among the Eligible Members

A formula which the board of directors believes is fair, equitable and practical has been established in order to determine the way in which the full value of Industrial-Alliance will be distributed among eligible members. This formula takes into account two fundamental aspects of the relationship of members with Industrial-Alliance:

- the right to vote
- the relative contribution that their policies, grouped into each of Industrial-Alliance's five major business lines, have made to the value of Industrial-Alliance.

Shares Allocated Based on the Voting Right

Currently, only members may vote at the meetings of Industrial-Alliance since there are no shareholders. If Industrial-Alliance becomes a share capital company, the voting rights will belong primarily to the shareholders, except for a special voting right for holders of participating policies. There are also differences between the voting rights of members in a mutual insurance company, like Industrial-Alliance in its current form, and the voting rights of shareholders in a share capital company, as Industrial-Alliance will be after its conversion. You will find more explanations on this subject under the heading *Changes in the Voting Rights of Members* in Chapter 6.

Each eligible member who holds a participating or non-participating insurance policy will be allocated five common shares for his/her voting right in the Company in its current form.

Each eligible member will be allocated an identical number of common shares because the voting right of each member in the Company is the same, regardless of the number and the value of the insurance policies he or she holds. This "fixed component" designates the allocation of an identical number of common shares to each eligible member. It represents about 10% of the total number of shares that will be allocated as part of the conversion.

Shares Allocated Based on the Contribution to the Value of Industrial-Alliance

The insurance policies of members have contributed to the growth in the value of the Company. The contributions to value differ depending on the type of policy. In recognition of this fact, each of the eligible members will be allocated a variable number of common shares or a cash amount based upon the policies issued by Industrial-Alliance held on April 30, 1999. This "variable component" designates the allocation of a variable number of shares and represents about 90% of the total number of shares which will be allocated as part of the conversion. This variable component will be added to the fixed component, consisting of the five common shares allocated for the voting right.

It is not possible to determine exactly the contribution, by policy and by policyholder, to the value of Industrial-Alliance. However, by grouping the policies in force by business line, it is possible with the available data to establish the percentage of contribution of each business line of Industrial-Alliance to its surplus. From there, we apply the same percentage to establish the contribution of each business line to the overall value of Industrial-Alliance. The common shares remaining to be distributed after the allocation of the fixed component are distributed in the same proportion in each business line for allocation to the policies of such business line.

The following table presents the percentages of common shares allocated according to the fixed component by member and according to the variable component by policy. The table also presents the percentages of the variable component by policy allocated to each business line according to the portion of Industrial-Alliance's surplus generated by each of the business lines.

	Approximate percentage of shares
Fixed component	9.8
Variable component	
individual life insurance	45.8
individual health insurance	0.3
individual annuities	19.7
group life and health insurance	6.4
group annuities	18.0
Total	<u>100.0</u>

The distribution of the variable component

Once the total percentage of common shares per business line has been established, these shares are distributed by policy in each business line. The board of directors, following the recommendation of the appointed actuary, has adopted criteria to evaluate the relative importance of each policy and thus allocate to each policy a fair number of common shares.

These criteria are:

- the benefit amount, being the annuity payments or the amount that Industrial-Alliance will have to pay in the event of death
- the premium
- the values that the policyholder may withdraw at any time, without having to surrender his policy (for example: the savings accumulated under a policy)
- the values that the policyholder may withdraw only by surrendering his policy (for example, the cash surrender value)
- the duration of the policy (for policies issued by Canadian Union, the duration is only considered as of December 16, 1996).

All these criteria are not relevant for all types of policies in each business line. To the extent that the policies of different business lines include similar characteristics, audits have assured Industrial-Alliance that the results of the application of the formulas were equitable.

In Chapter 7, under the heading *Allocation of Conversion Benefits*, at Article 7, you will find the specific formulas used for the distribution of the variable component in each business line.

Selling Your Shares

Eligible members who will receive common shares at the time of conversion will be able to sell their common shares through a registered broker. Industrial-Alliance will also offer a service to assist eligible members who do not have a brokerage account in selling their common shares.

This service will be available starting 30 days after conversion and continuing for a period of at least two years. After that, Industrial-Alliance will have the right to discontinue this service at any time, but only after issuing a public announcement to that effect.

To use this share sale service, shareholders must communicate with Montreal Trust Company, which will administer the service for Industrial-Alliance. Montreal Trust Company will then sell the common shares through a registered broker. As part of this share sale service, sales will be made on a pooled basis at least once a week, or more often if there are a large number of requests to sell. Shareholders must pay their share of all applicable costs, including the sales commission. Montreal Trust Company will send a cheque for the value of the common shares, less sales charges, directly to shareholders.

A complete description of the share sale service will be attached to the statement to be mailed to the eligible members receiving common shares upon conversion. If you wish more information in advance, you can call toll free 1-877-684-5000.

What Would the Value of the Shares or the Cash Amount Be?

How the share price will be established at the time of conversion

Market prices are established by willing buyers and sellers and are generally considered to be the fairest measurement of the value. In order to establish conditions favourable to the trading of the common shares of Industrial-Alliance and to establish a market price, Industrial-Alliance intends to proceed with an IPO for its common shares, which will be completed at the time of conversion. In connection with this IPO, common shares of the Company will be sold to new investors at the initial offering price. Nesbitt Burns Inc., Industrial-Alliance's lead underwriter, and other investment dealers will sell common shares to investors for commissions paid by the Company for such service.

The initial offering price is the price agreed on by Industrial-Alliance and its underwriters as the offering price for the common shares of Industrial-Alliance at the time they are sold to new investors and listed on The Montreal

Exchange and The Toronto Stock Exchange. This price will be negotiated between the Company and its underwriters before the listing, depending on market conditions at that time.

The initial offering price will be established in such a way as to ensure that the common shares are an interesting investment, both in the short and long term. This procedure will expand the distribution of the common shares, increase the number of possible buyers and sellers, and establish what is called market liquidity.

Even if Industrial-Alliance agrees on an initial offering price with its underwriters immediately before the conversion, the price at which the common shares will be traded on the market after the conversion will be determined exclusively by market factors, and Industrial-Alliance will not be able to influence the price of its common shares directly.

The prices at which the common shares will be traded when they are listed on The Montreal Exchange and The Toronto Stock Exchange will probably be different from the initial offering price.

How the Cash Amount will be Calculated

The cash amount under the conversion proposal will be equal to the number of common shares that an eligible member would have received if no cash amount had been paid, multiplied by the initial offering price of a common share of Industrial-Alliance. Industrial-Alliance will pay all fees and commissions related to the IPO.

The initial offering price is used to calculate the cash amount for two reasons. It will be the first market price available for the common shares of Industrial-Alliance. Secondly, it eliminates differences between the price of the common share paid by new investors and the amount paid to eligible members who receive a cash amount. The board of directors believes that this is a fair and equitable method of calculation for both groups.

Initial Public Offering

The IPO will be used to fund payments to eligible members who are to receive a cash amount and also to possibly raise additional funds for general corporate purposes. The IPO will help ensure that a larger number of common shares of Industrial-Alliance is held by institutional investors, which should stabilize the market for the common shares. The terms and conditions of the IPO, including the amount of the distribution, will be established by the board of directors of Industrial-Alliance in consultation with the underwriters based on, among other things, the number of eligible members who elect to receive a cash amount and the total value of that amount, Industrial-Alliance's needs for additional capital, general market conditions for the distribution of shares, investors' interest for shares of life and health insurance companies, Industrial-Alliance's performance, and Company's growth prospects. The proceeds from the offering might not be sufficient to pay all the eligible members who have elected or are deemed to have elected to receive a cash amount.

Estimated Value of the Initial Public Offering for the Shares of Industrial-Alliance

Nesbitt Burns Inc., acting as financial advisor for Industrial-Alliance in respect of the conversion, delivered to the board of directors opinions reproduced in Chapter 8. They include their opinion as to the range of estimated prices at which the common shares of Industrial-Alliance could be expected to have been offered on August 10, 1999 in the initial public offering. The opinions state particularly, subject to the assumptions, limitations, observations and qualifications described therein, that: (i) the IPO market valuation range is approximately \$510 million to \$765 million; (ii) assuming that 35,000,000 common shares will be outstanding, the implied initial offering price range of the common shares is approximately \$14.55 to \$21.85 per share; (iii) the IPO market valuation range reasonably reflects prevailing market conditions; and (iv) the methods and assumptions used to estimate the IPO market valuation range are appropriate.

The opinions of Nesbitt Burns Inc., which contain certain assumptions, limitations, observations and qualifications, were included by the board of directors in Chapter 8 of this *Member Guide* so that eligible members can read them in their entirety. These opinions are not a recommendation to the eligible members as to the exercise of their voting rights on the proposal, nor as to the elections they can make. The eligible members are informed that the actual initial offering price could materially differ from the IPO market valuation range provided in the report of the financial advisor. Usually in initial public offerings, the offering price of common shares reflects a discount (which may be material) from the full trading value of such shares, once they are entirely distributed. Accordingly, the experience with large distributions of equity securities leads to the belief that an offering and sale of the common shares would require a

discount from the expected full distributed trading value of such shares once they are entirely distributed. The amount of such discount would be based on various factors, including the absolute size of the offering, the size of the offering relative to the overall capitalization of the Company, the Company's results and expectations with respect thereto, marketing considerations, timing considerations and general market conditions. There is no guarantee that an eligible member will obtain the estimated value for his common shares, whether they are retained or sold. The initial public offering price and the subsequent market prices of the common shares will depend on the economic conditions in general, the condition of the stock markets, the prices at which the securities of generally comparable public companies are traded, the level of the demand for the shares of Industrial-Alliance and other factors.

Nesbitt Burns Inc. will receive fees in consideration of the services rendered to Industrial-Alliance and the opinions provided to the board of directors in connection with the conversion project. Industrial-Alliance also agreed, among other things, to indemnify Nesbitt Burns Inc. and other specific persons against certain liabilities. Moreover, Nesbitt Burns Inc. has in the past acted as financial advisor and provided financing services to the Company. In the ordinary course of its activities, Nesbitt Burns Inc. or its affiliates may at any time hold long or short positions, and may trade or otherwise effect transactions for their own account or the account of their clients, in securities of the Company. Finally Nesbitt Burns Inc., as lead underwriter of a syndicate of underwriters, expects to enter into a definitive underwriting agreement providing for, upon the terms set forth therein, the issuance and sale by Industrial-Alliance of the common shares in connection with the initial public offering.

Factors That Can Affect the Price of Industrial-Alliance Common Shares

If you elect to receive a cash amount, the amount that you will receive will be established at the time of conversion and will not change. However, if you elect to receive common shares of Industrial-Alliance and retain them, their price may move up or down thereafter, which means that the value you receive at the time of conversion may increase or decrease over time.

Listed common shares are bought and sold by investors. The price of common shares is established at the time of purchase or sale. Once the common shares of Industrial-Alliance are listed on The Montreal Exchange and The Toronto Stock Exchange, the price could be higher or lower than the initial offering price or the estimated market valuation range established by Nesbitt Burns Inc.

Though common shares offer potential returns, there are also risks in owning them. More specifically, the Industrial-Alliance common share prices could suffer the effects of any of the following general risk factors:

- the general economic condition
- fluctuations in interest rates
- investors' opinions about the general prospects for the insurance industry
- the rise or fall of stock prices in general.

Investors will assess the business activities of Industrial-Alliance, and this will be reflected in the price of the common shares of Industrial-Alliance.

Summary of Canadian Tax Considerations for Eligible Members

This section is a summary of the legal opinions for an individual concerning tax matters and eligibility for investment. We invite you to read the complete report, which you will find in Chapter 8, to review all the important information, the restrictions and assumptions contained in the report, and consult your tax advisor in order to determine the tax considerations applicable to you. They may differ from those described in the following paragraphs.

Residents of Canada

Distribution in the form of shares

The distribution of Industrial-Alliance common shares will result in no immediate tax consequences for eligible members. The tax consequences will arise either on receipt of dividends on the shares or upon the disposition of the shares.

If the shares are kept, the holder will normally be taxed on any dividends received on the shares in accordance with the dividend gross-up and tax credit rules described below.

If the shares are sold, the holder will normally realize a capital gain equal to the sale price less reasonable costs of disposition as the cost of such shares will be deemed to be nil for tax purposes. This gain may be different if the holder has purchased other common shares of Industrial-Alliance on the market. The holder will be required to include 75% of the amount of any capital gain realized on the sale of his shares in his income for the year in which he disposes of his shares.

Payment of a Cash Amount

The cash amount paid to an eligible member will be treated as a dividend paid by a taxable Canadian corporation. Thus, the rules normally applicable to dividends paid by such corporations will apply, which means that an individual will have to include in his income the cash amount received as well as a gross-up of one quarter of such amount and he may claim a dividend tax credit for federal and, where applicable, Québec income tax purposes.

Non-residents of Canada

Distribution in the form of shares

The conversion proposal provides that non-residents may only receive a cash amount.

Payment of a Cash Amount

The cash amount paid to an eligible member will be treated as a dividend paid by a taxable Canadian corporation. Industrial-Alliance will be required to withhold tax equal to 25% of the amount paid to the non-resident. This tax may be reduced by an applicable tax treaty.

RRSP and RRIF

Holders of eligible policies registered as a Registered Retirement Savings Plan (“RRSP”) or a Registered Retirement Income Fund (“RRIF”) receiving the shares or the cash amount directly will be subject to the same tax considerations described above.

The shares will be qualified investments for tax purposes for RRSPs, RRIFs, Registered Education Savings Plans (“RESPs”) and Deferred Profit Sharing Plans (“DPSPs”).

Other Considerations

Eligibility to several social programs, government benefits and tax credits is based on the income or assets of the taxpayers. The ownership of Industrial-Alliance shares, their sale, or the receipt of a cash amount could either reduce these benefits and credits for the current year or for a subsequent year, or require the reimbursement of certain benefits for the current year. A non-comprehensive list of the programs, benefits or credits that may be affected is set out below:

- Old Age Security benefits
- Guaranteed Income Supplement
- Spouse’s or Surviving Spouse’s Allowance
- Employment Insurance benefits
- Child tax benefits
- GST/HST credit and QST credit
- Non-refundable federal tax credits
- Provincial and territorial tax credits
- Provincial family allowances
- Provincial public assistance

It is important that you consult a professional advisor or the relevant government agency if you benefit or plan to benefit from these programs, benefits or tax credits.

Listing and Trading Common Shares

The Montreal Exchange and The Toronto Stock Exchange have each conditionally approved Industrial-Alliance's application for the listing of its common shares if the conversion takes place. The principal Canadian Exchanges have recently announced a reorganization project under which equity shares would no longer be listed on The Montreal Exchange. If this reorganization project becomes reality, Industrial-Alliance common shares could not be listed on The Montreal Exchange.

Statement of Ownership of Common Shares

Industrial-Alliance has decided to issue its common shares using a book-entry system which does not use share certificates. Under this system Montreal Trust Company, as Industrial-Alliance's transfer agent and registrar, will keep a register in which the name of each shareholder and the number of shares held will be registered. Each shareholder will receive a statement of ownership and will have the same rights as if he held a share certificate. The "book-entry system" provides the following advantages:

- it eliminates the risk of share certificate loss for the shareholder
- it facilitates the transfer of ownership for shares held in a brokerage account
- it reduces costs because no share certificate is issued.

If you wish, you can ask Montreal Trust Company any time after the date of conversion to provide you with a share certificate. Eligible members who have the right to receive common shares and who decide to keep them after conversion will be able to transfer these shares into their brokerage account. Information on these transfer agreements will be provided to you when Montreal Trust Company sends you your proof of shareholding.

Under applicable law, all registered shareholders of Industrial-Alliance will be able to review the list of registered shareholders of Industrial-Alliance at the offices of Montreal Trust Company during normal business hours, and copies may be obtained upon payment of a reasonable fee. Under current practice, no one can require that a list of beneficial shareholders registered in the book-entry system be disclosed.

Changes to Industrial-Alliance Following Conversion

- The conversion of Industrial-Alliance will bring a change in voting rights and ownership interests which will pass from members to shareholders.
- The insurance policies, annuities and other products held by policyholders will remain in force and unchanged with Industrial-Alliance.
- No change will be made in the insurance coverages, annuity payments, cash surrender values, or in premiums or rights to receive policyholder dividends.
- Industrial-Alliance will restructure its accounts and its capital.
- Preferred securities outstanding will be replaced by preferred shares.
- Industrial-Alliance will remit to eligible members the maximum value possible at the time of conversion, while ensuring that it can continue to meet its obligations to all its policyholders and meet all the reasonable expectations of holders of participating policies with respect to policyholder dividends payable in the future.
- The board of directors intends to establish a share ownership plan for the senior management of Industrial-Alliance which will be submitted to a shareholder vote if necessary. These plans cannot take effect until at least one year after Industrial-Alliance common shares have been listed on the Exchanges.

Full Maintenance of Your Rights as an Insurance Policyholder

You will remain a policyholder as you are now. The insurance policies, annuities and other products that you now own will remain in force. No change will be made in the insurance coverages, annuity payments, cash surrender values, premiums, or your right to receive policyholder dividends.

Changes in Your Rights as a Member of Industrial-Alliance

As a member of Industrial-Alliance, you now have two rights:

- the right to vote at meetings of Industrial-Alliance
- an ownership interest, being the right to receive the surplus of Industrial-Alliance in the event of liquidation, dissolution or winding-up.

Changes in the Voting Rights of Members

The change in ownership means a transfer of the voting rights in Industrial-Alliance general meetings from members to shareholders. In a mutual insurance company like Industrial-Alliance, all voting rights belong to members. In a share capital insurance company, as Industrial-Alliance will be after conversion, voting rights are primarily held by shareholders. Policyholders with participating policies will have limited voting rights.

Voting Rights Before Conversion

Members are entitled to vote on any matter submitted for a vote at meetings. They have one vote per person, regardless of the number or value of the policies held.

Voting Rights After Conversion

Shareholders have a general right to vote on matters submitted for a vote at general meetings. Holders of participating policies have the right to elect one third of the members of the board of directors and have the right to receive notice of and to attend any Industrial-Alliance meeting.

In a vote by show of hands, shareholders are entitled to one vote per person. In a vote by ballot or by proxy, they are entitled to one vote for each common share held. Holders of participating policies are entitled to one vote per person, regardless of the voting method.

The Right to Receive the Surplus of Industrial-Alliance in the Event of Liquidation, Dissolution or Winding-up

Industrial-Alliance maintains sufficient assets to meet its obligations to its members. As a responsible insurer, it also maintains a surplus, in an amount greater than the minimum required by law, to offer additional protection of members' interests. The surplus of Industrial-Alliance is not reflected in the face amount of the policies or in the cash surrender value and may be paid out to members only in the event of the liquidation, dissolution or winding-up of the Company. This right is not convertible into cash. In addition, when you cease to be a policyholder, you lose any right to the surplus of Industrial-Alliance.

One of the important goals of conversion is to convert the right of eligible members to receive such surplus into a real right. The common shares that eligible members¹ will receive will reflect at all times their share in the surplus of Industrial-Alliance, and they will be able to dispose of these common shares at their discretion. The right to the surplus of Industrial-Alliance will become tangible and convertible in cash for them.

Industrial-Alliance will be Managed to Benefit Both its Policyholders and its Shareholders

Industrial-Alliance's objective is to meet the needs of its policyholders. After the conversion, Industrial-Alliance will have duties in respect of two important groups: policyholders and shareholders. Although the shareholders will be the owners of Industrial-Alliance and expect to receive a return on their investment, the principal asset of Industrial-Alliance remains its insurance activities. Management's duty will remain what it has always been: to make decisions in the best interests of Industrial-Alliance, which means the interests of both policyholders and shareholders. The board of directors is confident that it can properly meet the reasonable expectations of both groups and satisfy their respective interests.

¹ Eligible members whose address is outside Canada will not receive common shares. Conversion benefits will be paid to them in cash.

Protective measures are provided by law or required by the IGFI to ensure that the interests of policyholders are protected at all times; the principal measures include:

- in the event of liquidation, the legal obligation of Industrial-Alliance to pay benefits to policyholders before any payment is made to shareholders
- the right of holders of participating policies to elect one third of the board of directors
- the existence of separate accounts for participating policies
- the maintenance of a minimum amount of capital.

Both policyholders and shareholders are protected by the quality and integrity of the management of Industrial-Alliance.

Board of Directors of Industrial-Alliance

There will be no immediate change in the board of directors. All the committees of the board of directors will remain in place. The names of the directors and officers in office as of August 10, 1999 are provided in Chapter 9. No less than one-third of these directors will thereafter be elected by participating policyholders, while the remaining will be elected by shareholders.

Industrial-Alliance's New Accounts and New Capital Structure

Most Canadian mutual life and health insurance companies, including Industrial-Alliance, issue policies with or without policyholder dividends. As required by law, Industrial-Alliance currently maintains a separate account for the two types of policies. Each account includes the assets, liabilities and the surplus attributable to this type of insurance, which allows Industrial-Alliance to record the experience of the participating insurance policies separately from that of the non-participating insurance policies. Industrial-Alliance can use the surplus from both accounts to determine the amount of the policyholder dividends to be paid to participating policies.

Share capital insurance companies also have the obligation to maintain a separate account for participating policies, the other account being the shareholders' account. In these companies, profits from non-participating insurance policies and, as a rule, a portion of the earnings from participating policies, are used to pay dividends to shareholders.

The primary duty of Industrial-Alliance is to pay benefits to its policyholders. All the assets of Industrial-Alliance are available to meet its obligations to policyholders. After the conversion, this objective will not change and all the assets of Industrial-Alliance will be available first and foremost to satisfy its obligations to all policyholders.

Principles and Objectives

In planning its new account structure, Industrial-Alliance wanted to give eligible members the maximum value possible at the time of conversion, while continuing to meet the reasonable expectations of the holders of participating policies with respect to policyholder dividends payable in the future.

At the same time, Industrial-Alliance's objectives are to:

- treat all policyholders fairly and equitably,
- maintain its financial strength.

The new account structure is also intended to contribute to value creation for shareholders both now and in the future by creating a structure that increases the dividend potential for shareholders. The account structure is described in detail in Chapter 7.

Industrial-Alliance's New Accounts

Industrial-Alliance already has a participating account which is maintained, primarily but not exclusively, to record the participating policies and those described as participating policies. At the time of conversion, this account will be restructured to record these types of policies exclusively and it will become the pre-conversion participating account.

Industrial-Alliance will also establish an account for the shareholders. All of Industrial-Alliance's assets on the date of conversion will be credited to the shareholder account, except for the assets necessary to support the pre-conversion participating account, including the sums required to meet reasonable expectations with respect to future policyholder dividends of the policyholders covered by this account. The pre-conversion participating account will be managed so that it maintains no surplus over the years. The profits generated by this account, after payment of policyholder dividends, will be transferred to the shareholders' account. Any deficit recorded in this account will be covered by a transfer from the shareholders' account.

Policyholder Dividends for Holders of Participating Policies

After the conversion, no change will be made to the rights of those holding participating policies to receive policyholder dividends. These policyholder dividends will come directly from the pre-conversion participating account and, as before the conversion, the board of directors will determine the amount. As in the past, the policyholder dividends will vary depending on the actual investment income, mortality rates, costs and taxes. The methodology used by Industrial-Alliance to determine policyholder dividends immediately before the conversion will be maintained.

Discontinuance of Sales of Participating Insurance

In the past, Industrial-Alliance sold the vast majority of its individual life insurance policies as participating policies, while almost all the policies in the other business lines were not participating policies. The distinction between participating and non-participating policies is now increasingly tenuous in individual life insurance given the characteristics of the policies, which can vary according to complex formulas and conditions.

Indeed, the participating policies usually provide for the payment of policyholder dividends based on the experience of each class of policies, namely the results of the class involved in relation to the assumptions on which the premiums and other components of the policies were based. Most individual insurance policies now issued, however, include features such as premiums, insured capital or accumulated funds, which may vary depending on different parameters such as, for instance, the performance of the market. In such case, policyholders may receive a variable advantage, which cannot however be called a policyholder dividend. This is also true for most of the policies now underwritten by the insurance industry and those policies are non-participating policies.

On May 1, 1999 Industrial-Alliance ceased to offer participating policies and does not intend to offer such policies in the foreseeable future. Therefore, the shareholders' account will receive all the profits generated by the new non-participating policies. This potential improvement in gains, return on equity and growth should benefit Industrial-Alliance shareholders.

Share Ownership Plans for Directors and Senior Management

The board of directors is of the opinion that it is important to offer competitive compensation to senior management by linking their compensation directly to the performance of Industrial-Alliance. In the past, Industrial-Alliance has achieved this objective by offering, as part of its compensation programs, variable compensation components that were linked to results and to the achievement of the objectives of its divisions and departments.

As a share capital insurance company, Industrial-Alliance will have the opportunity to consider establishing certain forms of share ownership plans for directors and senior management. Industrial-Alliance will not offer these share ownership plans until its common shares have been traded on the Exchanges for at least one year. However, the board of directors plans to develop and recommend such senior management share ownership plans after this period. The details of these plans have not yet been determined, but will have to be submitted for the shareholders' approval before implementation.

No Special Compensation is Linked to Conversion

The directors, officers and employees of Industrial-Alliance will not receive any special compensation for the conversion of Industrial-Alliance. However, if they are eligible members, they are entitled to receive common shares or a cash amount.

Conversion Proposal of Industrial-Alliance Life Insurance Company

- Article 1 — Definitions
- Article 2 — Purposes of Conversion
- Article 3 — Approval by the Members
- Article 4 — Conversion
- Article 5 — Probative Value of Industrial-Alliance Registers
- Article 6 — Eligibility to Conversion Benefits
- Article 7 — Allocation of Conversion Benefits
- Article 8 — Distribution of Conversion Benefits and Initial Public Offering (IPO)
- Article 9 — Structure of Accounts
- Article 10 — Additional Provisions

This conversion proposal, adopted by the board of directors of Industrial-Alliance Life Insurance Company at a duly called meeting held on August 10, 1999, provides for the conversion of Industrial-Alliance, a mutual life insurance company, into a share capital company.

The conversion is subject to the following conditions:

- (1) the approval of this conversion proposal by the members;
- (2) the passing and coming into force of a bill (“*An Act respecting conversion*”) by the National Assembly of Québec, to authorize the conversion at conditions essentially similar to those stipulated in this proposal;
- (3) the issue of letters patent of conversion in order to make the conversion effective.

Article 1 — Definitions

1.1 Definitions

The definitions appearing in the glossary are supplemented by the following:

business line The grouping of policies issued by Industrial-Alliance into categories with similar characteristics. See paragraphs 7.2 and 7.3.

conversion proposal This proposal.

fixed component The fixed portion of the conversion benefits. See paragraphs 7.2 to 7.4.

insurance policy in force See paragraphs 5.1 and 6.4.

insurance policy issued by Industrial-Alliance See paragraphs 5.1 and 6.3.

policy characteristics The financial and legal provisions of the policies which determine whether or not a policy is eligible and the number of shares allocated to this policy pursuant to the application of the conversion benefit allocation formulas.

policyholder dividend policy The policy of Industrial-Alliance for determining policyholder dividends to be paid on the policies covered by the pre-conversion participating account. See Article 9.

review board The body established by Industrial-Alliance to review the determination made concerning the entitlement of a person or policy to conversion benefits and the amount of such benefits. See paragraph 6.7.

special meeting The special meeting of the members of Industrial-Alliance described in paragraph 3.1.

variable component The variable portion of the conversion benefits. See paragraphs 7.2 to 7.11.

1.2 Currency

All references to currency in this document refer to the lawful money of Canada.

Article 2 — Principal Purposes of Conversion

2.1 Principal Purposes of Conversion

The principal purposes of the conversion of Industrial-Alliance into a share capital insurance company are the following:

- to facilitate the access of Industrial-Alliance to the capital markets.
- to allocate, primarily in the form of common shares, the value of Industrial-Alliance to eligible members, taking into account their voting rights and ownership interests in Industrial-Alliance.

Article 3 — Approval by Members

3.1 Special Meeting of Members

- (a) Industrial-Alliance will hold a special meeting of members on November 8, 1999 in order to:
 - (i) approve this conversion proposal, which includes the conversion by-law set out in Appendix I;
 - (ii) authorize the presentation of a request to the National Assembly of Québec for the passing of *An Act respecting conversion* in order, among other things, to authorize the conversion at conditions essentially similar to those set forth in this proposal;

- (iii) authorize the presentation of an application for the issue of letters patent of conversion in order to make the conversion effective.
 - (b) At the special meeting, each member has one vote, regardless of the number or value of the policies of which he or she is the policyholder.
 - (c) Adoption of the conversion proposal is subject to the approval of at least two-thirds of the votes of the members voting in person or by proxy at the special meeting.
- 3.2 Notice of the Special Meeting and Proxy**
- (a) Industrial-Alliance has prepared a list as of April 30, 1999 of eligible members determined in accordance with Article 6.
 - (b) No later than September 24, 1999, Industrial-Alliance will send each eligible member a notice of the special meeting in a postage-paid envelope. The mailing also includes the *Member Guide*, an explanatory booklet, a proxy form, personalized information and, if applicable, an election form.
 - (c) Industrial-Alliance will also give notice of the place and time of the special meeting, in French and in English, by publishing the notice once at least 15 days before the date of the special meeting in two French language daily newspapers and one English daily newspaper, at least one of which is published in the Québec region.
 - (d) Members entitled to vote at the special meeting and who have not received the notice of meeting and the related documentation described in paragraph (b) may obtain this documentation from Industrial-Alliance upon request.

Article 4 — Conversion

4.1 Effective Date and Time of Conversion

Conversion will be effective at 12:01 a.m. (“effective time”) on the date of the letters patent of conversion.

4.2 Effects of Conversion

- (a) On the effective date of conversion, Industrial-Alliance will be converted into a share capital insurance company in accordance with the terms and conditions of *An Act respecting conversion* and, among other things, the following will occur simultaneously at the effective time:
 - (i) *An Act respecting conversion* and *An Act respecting insurance* (Québec) bind Industrial-Alliance and its members;
 - (ii) the conversion by-law appearing in Appendix I takes effect and the Industrial-Alliance’s outstanding preferred securities are converted into preferred shares, series 1, with rights, privileges, restrictions and conditions set out in Schedule 1 attached thereto;
 - (iii) Industrial-Alliance becomes a share capital insurance company and the legal existence of Industrial-Alliance as a mutual insurance company is continued as a share capital insurance company; and
 - (iv) the participating account and the non-participating account maintained by Industrial-Alliance are restructured and redesignated in accordance with Article 9.
- (b) Upon the event described in paragraph (a) taking effect:
 - (i) the member’s interests in Industrial-Alliance terminate, but all the rights expressly stipulated in insurance policies are maintained in their entirety;
 - (ii) eligible members are entitled to receive conversion benefits in accordance with the provisions of Article 8;
 - (iii) the policyholder dividend policy appearing in Appendix II takes effect;
 - (iv) shareholders and participating policyholders have, at meetings of Industrial-Alliance, the voting rights provided for in *An Act respecting insurance* and *An Act respecting conversion*.
- (c) Before the Industrial-Alliance common shares begin trading on The Montreal Exchange and The Toronto Stock Exchange on the effective date of conversion:
 - (i) the common shares are listed on The Montreal Exchange and The Toronto Stock Exchange and may thereafter be traded thereon; and

- (ii) Industrial-Alliance intends to proceed with an initial public offering (“IPO”).

4.3 Tax Considerations and Possibilities of Withdrawal

(a) The Company has been advised by its legal counsel that the summary of the principal tax considerations for the eligible members presented in Chapter 8 of the *Member Guide* fairly describes, in all material respects, the principal Canadian federal and Québec tax considerations of conversion for the members on the effective date of conversion, as such considerations are known on August 10, 1999.

(b) The board of directors will abandon and completely withdraw the conversion proposal in accordance with paragraph 10.3 if, because of changes between August 10, 1999 and the effective date of conversion, the summary no longer fairly describes these principal tax considerations, with the exception of changes that Industrial-Alliance believes are not materially unfavourable to the interests of the members as a group.

Article 5 — Probative Value of the Books and Records of Industrial-Alliance

5.1 General Rule

The books and records, documents and other written material, whether in paper or electronic form, maintained or kept by Industrial-Alliance are, until the contrary is proven, deemed to be true and accurate particularly to determine whether an insurance policy was issued by Industrial-Alliance, the effective date of such a policy and if it was in force on the eligibility date, and the characteristics of the policy and the name and address of the policyholder.

Article 6 — Eligibility

6.1 Definition of Eligible Policy and Eligible Member

(a) The insurance policies issued by Industrial-Alliance and in force on the eligibility date are eligible policies, with the exception of any agreement with life insurance subsidiaries of Industrial-Alliance for the management of funds attached to annuity policies issued by these subsidiaries.

(b) Every person who is the policyholder of an eligible policy on the eligibility date is an eligible member.

6.2 Eligibility Date

The eligibility date is April 30, 1999.

6.3 Special Rules for Determining Insurance Policies Issued by Industrial-Alliance

(a) Insurance policies issued by other insurers but assumed by Industrial-Alliance are deemed to be insurance policies issued by Industrial-Alliance.

(b) The term “insurance policies issued by Industrial-Alliance” includes insurance policies issued by insurance companies the legal existence of which is continued in Industrial-Alliance.

(c) An insurance policy issued by Industrial-Alliance after the eligibility date, but in response to an application for a new insurance policy signed on or prior to the eligibility date, is deemed to be an eligible policy.

(d) An insurance application refused by Industrial-Alliance gives no entitlement to conversion benefits even if the temporary coverage under the binding receipt is in force on the eligibility date.

(e) Binding receipts are deemed not to be policies issued by Industrial-Alliance.

(f) Group life and health insurance in force for the representatives and employees of Industrial-Alliance are not eligible policies.

6.4 Special Rules for Determining Insurance Policies in Force

(a) An insurance policy which, on the eligibility date, is a policy cancelled for non-payment of the premium and which is subsequently reinstated is deemed to have been in force on that date, but only if the request for reinstatement is received by Industrial-Alliance before the earlier of the date of the end of the reinstatement period of the policy and August 2, 1999. An insurance policy terminated for any other reason before the eligibility date and reinstated after such date is deemed not to be in force on the eligibility date.

(b) A terminated “modular” insurance policy is not considered to be in force simply because the period of extended insurance stipulated in the policy has not expired on the eligibility date.

- (c) An insurance policy is in force on the eligibility date if it is in force at any time during that day.
- (d) An insurance policy terminates on the date set in the policy or upon the death of the life insured, as the case may be.
- (e) A life or health insurance policy which has terminated is not considered to be in force simply because some disability benefits are still in force for some insured persons.
- (f) An insurance policy that terminates is not considered in force simply because the sums payable under the terms of the policy have not been fully paid out.
- (g) Even if an insurance policy has been issued, it is considered not to be in force if no premium has been paid and at least one premium was due.
- (h) Where the policyholder of an insurance policy issued by Industrial-Alliance has requested its cancellation with full repayment of the premiums since the effective date, it is considered never to have been in force.
- (i) An insurance policy issued with an effective date prior to the date the application form was signed is an eligible policy only if the application was signed on or before the eligibility date and if the policy was in force on the eligibility date.

6.5 Special Rules to Determine Policy Characteristics

The characteristics of the insurance policies are determined at the end of the day on the eligibility date, subject to the following:

- (a) for policies terminated on the eligibility date, the characteristics are those in force immediately before the termination of the policy;
- (b) for policies issued after the eligibility date as a result of an application signed before that date, the characteristics are those in force on the effective date of the policy.

6.6 Special Rules to Determine Policyholders

- (a) The policyholder of an insurance policy is the person who is the owner of the policy at the end of the day on the eligibility date.
- (b) When several persons appear as the policyholder of the same insurance policy, they are collectively considered to be a single policyholder and, if the address of one of these persons is outside Canada, the policyholder is considered to be a foreign member.
- (c) The assignment of an insurance policy after the eligibility date does not carry the assignment of the member's interests.
- (d) The right to receive conversion benefits is non-assignable:
 - for cash amounts, until they have been received by eligible members, in accordance with sub-paragraph (b) of paragraph 8.5 of Article 8; and
 - for common shares, until they are listed on The Montreal Exchange and The Toronto Stock Exchange.
- (e) In the case of a group insurance policy, only the policyholder is a member.
- (f) With the exception of individual policies resulting from the conversion of group life insurance benefits, the owners of certificates issued in favour of participants for the settlement of rights arising from group insurance policies are not considered to be policyholders, whether the group policy is in force or not.
- (g) When a person is the owner of eligible policies in more than one legal capacity, such person is considered as a distinct policyholder of an eligible policy in each capacity. When one person is the policyholder of several eligible policies in his or her capacity as a trustee (or in any other representative capacity) on behalf of the same beneficiaries, such person is not considered to be a distinct policyholder with respect to each of these policies.
- (h) Industrial-Alliance is not required to see to the execution of any trust. When it deals with a person who is the policyholder of a policy as a trustee, Industrial-Alliance is not required to verify the existence, the scope or the specific description of the fiduciary relationship and it may assume, without making an inquiry, that the trustee listed in its records retains that status until it has been notified in writing that such person is no longer acting as a trustee with respect to the policy or the conversion benefits which may be distributed with respect to the policy.



The same rule applies, *mutatis mutandis*, when the policyholder is an administrator of the property of others (or is acting in any other representative capacity).

6.7 Review and Review Board

(a) Any policyholder may ask Industrial-Alliance to review its records to determine if he or she is an eligible member or, if he or she is an eligible member, to confirm the number of common shares to be allocated to him or her under Article 7.

(b) Requests for review are accepted only if submitted in writing to Industrial-Alliance Life Insurance Company, 1080 Chemin Saint-Louis, Sillery, Québec, G1K 7M3, within 30 days following the effective date of conversion and giving reasonable details concerning the request for review.

(c) Industrial-Alliance must promptly decide on the request for review and inform the applicant of its decision with reasons in writing.

(d) The policyholder may, within 90 days following the mailing of Industrial-Alliance's decision, ask the review board of Industrial-Alliance Life Insurance Company, 1080 Chemin Saint-Louis, Sillery, Québec, G1K 7M3, to review the decision made by Industrial-Alliance.

(e) The review board, the chairman of which is a person independent from Industrial-Alliance, has been established by Industrial-Alliance. When so requested, the review board reconsiders the decision of Industrial-Alliance and makes a decision in this respect. The review board is bound by the rules of procedures set by Industrial-Alliance, including the procedure to replace the persons appointed to the review board who have resigned or are no longer able to sit on the review board. The decision of the review board is binding on Industrial-Alliance and the policyholders.

Article 7 — Allocation of Conversion Benefits

7.1 Calculation of the Allocation

In order to determine the number of common shares to be issued or the cash amount to be paid as conversion benefits to each of the eligible members, each eligible member will be allocated, on a notional basis, the number of common shares determined using the formulas set out in this Article 7 and, for this purpose only, it is assumed that all eligible members are being allocated conversion benefits in the form of common shares. It is understood that nothing in this Article 7 is to be construed in such a way as to confer on any eligible member the right to receive common shares.

7.2 Basis of the Allocation Formulas

The allocation formulas included in this conversion proposal have been developed based on the following objectives:

- (i) to be fair, equitable, simple, practical, reasonable and understandable to the eligible members; and
- (ii) to recognize, firstly, the voting right of each eligible member through a fixed component of the allocation that is of equal value for all eligible members. Secondly, in order to recognize the ownership interests of the members, to include a variable component which reflects, by business line, the relative contribution of the eligible members to the surplus of Industrial-Alliance. Finally, to take into account, within each business line and according to the available data, the relative size of each of the policies and, when relevant, the policy duration.

7.3 Aggregate Allocation of the Shares

(a) Subject to paragraphs 7.11 and 10.2, eligible members will be allocated an aggregate of about 35 million common shares.

- (b) The following table provides the distribution of these common shares between the fixed component and the variable component and the business lines used for the variable component:

	<u>Approximate percentage of the total number of shares</u>
Fixed component	9.8%
Variable component	
individual life insurance	45.8%
individual health insurance	0.3%
individual annuities	19.7%
group life and health insurance	6.4%
group annuities	<u>18.0%</u>
Total	<u>100.0%</u>

7.4 Individual Allocation of Shares

- (a) Subject to paragraph 8.6, each eligible member will be allocated the sum of the following elements:
- (i) five common shares as a fixed component, plus
 - (ii) a variable number of common shares for each eligible policy as a variable component.
- (b) The variable number of common shares allocated to each eligible policy is determined in accordance with the provisions of paragraphs 7.5 to 7.10 and is rounded up to the next whole number.
- (c) The number of shares presented in the formulas in paragraphs 7.4 to 7.10 has been established on the basis of an issue of 35 million common shares. The formulas could be modified, if deemed necessary, according to the actual number of common shares issued pursuant to paragraph 7.11.

7.5 Individual life insurance, other than insurance issued by Canadian Union.

- (a) For each eligible policy of which he or she is the policyholder and which is an individual life insurance policy issued by Industrial-Alliance, other than a policy issued by Canadian Union, the eligible member will be allocated:

0.18543 share for each \$1,000 of *face amount in the event of death*
plus
9.227 shares for each \$1,000 of *accumulated value*
plus
0.9555 share for each \$1,000 of *deposit value*.

The meaning of the terms *face amount in the event of death*, *accumulated value* and *deposit value* is given in the following paragraphs.

- (b) *Face amount in the event of death* is the amount of the contractual sum insured payable in case of death, excluding any additional benefits, demand values or terminal values. For policies under which the face amount consists of a series of payments, the *face amount in the event of death* is considered to be equal to 150 times the monthly payment or, as the case may be, the equivalent monthly payment.

The meaning ascribed to demand values and terminal values is set out in the following paragraphs.

- (c) *Accumulated value* is the terminal value of the policy or, if it is higher, the value obtained (A) by multiplying the annual premium for each benefit by the benefit duration; (B) by adding the results obtained in (A) with respect to each benefit; and (C) by multiplying the sum obtained in (B) by 35%. For the purposes of paragraph (c):

- (i) the terminal value is the value, other than the face amount in the event of death, the full withdrawal of which by the policyholder results in the termination of the policy, calculated without taking into account policy loans or surrender charges;
- (ii) the annual premium of universal life insurance type policies is considered to be the minimum annual premium in force on the eligibility date. The premium for single premium policies and paid up policies is deemed to be zero; and
- (iii) the benefit duration is the time elapsed between the effective date of the benefit and the eligibility date, calculated in years and fractions of years; the duration of benefits actually issued after the eligibility date is deemed to be zero, except if the effective date of the benefit is prior to the eligibility date.

- (d) The *deposit value* is the demand value for the policy multiplied by the factor indicated in the following table:

DURATION	FACTOR
less than 5 years	$0.75 + (\text{duration} \times 0.25)$
5 to 14 years	$2 + [(\text{duration} - 5) \times 0.20]$
15 years and more	4

For the purposes of paragraph (d):

- (i) the demand value is the value the withdrawal of which by the policyholder does not result in the termination of the policy, calculated without taking into account policy loans and surrender charges;
- (ii) the duration corresponds to the time elapsed between the effective date of the policy and the eligibility date, calculated in years and fractions of years and rounded up to the next whole number; and
- (iii) the factor applicable to policies effectively issued after the eligibility date is deemed to be zero, even if the effective date of the policy is prior to the eligibility date.

7.6 Individual Life Insurance Issued by Canadian Union

(a) In order to determine the number of shares to be allocated to an eligible member with respect to each eligible policy of which he or she is the policyholder and which is an individual life insurance policy issued by Canadian Union, the same formula as the one used in paragraph 7.5 is used, but with the following changes:

- the effective date of the benefits or the policies is deemed to be December 16, 1996;
- the terminal value is reduced by multiplying it by the appropriate factor determined from the following table:

YEAR POLICY ESTABLISHED	FACTOR
1996	0.97
1995	0.91
1994	0.85
1993	0.79
1992	0.73
1991	0.67
1990	0.61
1989	0.55
1988	0.50
1987	0.45
1986	0.40
1985	0.35
1984	0.30
1983	0.25
1982 or before	0.20

7.7 Individual Health Insurance

For each eligible policy of which he or she is a policyholder and which is an individual health insurance policy or a policy designated as “accigroup”, the eligible member will be allocated 2.136 shares for each \$100 of annual premium.

7.8 Individual Annuities

For each eligible policy of which he or she is the policyholder and which is an individual annuity policy, the eligible member will be allocated a number of shares determined according to the following formulas:

(a) For accumulation policies, payout annuity policies with surrender rights and deferred annuity policies for which the payout instalments upon maturity are not determined, the member will be allocated 0.9555 share for each \$1,000 in accumulated funds. The accumulated funds are the funds available upon surrender, calculated without taking into account policy loans and surrender charges and multiplied by the factor as determined in the following table:

DURATION	FACTOR
less than 5 years	$0.75 + (\text{duration} \times 0.25)$
from 5 to 14 years	$2 + [(\text{duration} - 5) \times 0.20]$
15 years and more	4

For the purposes of the table, the duration corresponds to the time elapsed between the effective date of the policy and the eligibility date, calculated in years and fractions of years and rounded up to the next whole number.

(b) For payout annuity policies without any surrender rights and deferred annuity policies for which the payout instalments upon maturity are determined, the member will be allocated 1.919 shares for each \$100 in payments on an annual basis.

7.9 Group Life and Health Insurance

(a) For each eligible policy of which he or she is the policyholder and which is a group life or health insurance policy, other than a policy designated as “accigroup,” the eligible member will be allocated 4.5126 shares for each \$1,000 in adjusted premiums.

(b) The adjusted premiums are equal to the product of *Premiums* $\times$ *Duration* $\times$ *Weighting Factor*, where these terms have the following meaning:

Premiums: The sum of the premiums invoiced for the month of April 1999 and the preceding eleven months, or

in the case of a single premium policy, the amount of such premium.

Duration: The time elapsed between the effective date of the policy and the eligibility date, calculated in months and fractions of months, and rounded up to the next whole number and divided by twelve, or

one, for single premium policies and those with a duration of less than one year.

When one policy replaces one or more other policies issued by Industrial-Alliance, the duration starts on the effective date of the oldest policy.

Weighting

Factor: The value obtained

(i) by multiplying each block of *Premiums* by the appropriate multiplier shown in the following table:

PREMIUM BLOCK	MULTIPLIER
\$0 to \$50,000	1
\$50,001 to \$250,000	0.75
More than \$250,000	0.25

(ii) by adding the results obtained in (i), and

(iii) by dividing the sum obtained in (ii) by the value of *Premiums* defined in this paragraph.



7.10 Group Annuities

For each eligible policy of which he or she is the policyholder and which is a group annuity policy, the eligible member will be allocated a variable number of shares for each of the following elements which are relevant to the policy:

(a) For funds being accumulated, payout annuities with surrender rights and deferred annuities for which the payout instalments upon maturity are not determined, the member will be allocated 0.7505 shares for each \$1,000 in accumulated funds.

Accumulated funds are the funds available upon surrender, calculated without taking into account policy loans and surrender charges and multiplied by the factor determined according to the following table:

DURATION	FACTOR
less than 5 years	$0.75 + (\text{duration} \times 0.25)$
from 5 to 14 years	$2 + [(\text{duration} - 5) \times 0.20]$
15 years and more	4

In this table, the duration corresponds to the time elapsed between the effective date of the policy and the eligibility date, calculated in years and fractions of years and rounded up to the next whole number.

(b) For payout annuities without any surrender rights, other than term annuity policies of the POWA type, and for deferred annuities for which the payout instalments upon maturity are determined, the eligible member will be allocated 2.0706 shares for each \$100 in payments on an annual basis.

(c) For term annuities of the POWA type, the eligible member will be allocated 1.0353 shares for each \$100 in payments on an annual basis.

The term “annuity policies of the POWA type” include the POWA policies, which are policies issued pursuant to the Program for Older Workers Adjustment established by the federal and provincial governments, and term annuity policies of the same kind.

7.11 Calculations and Adjustments

In order to respect the objectives of fairness and equity underlying the allocation formulas, and provided that the resulting variation is not material with respect to the total allocation of common shares, the appointed actuary is authorized, if he has reasonable grounds to do so, to make the following adjustments:

- in specific cases, to adapt the allocation formulas by using, among other things, bases that are different but equivalent to those used in the formulas;
- to use policy characteristics that are different from those stipulated in paragraphs 7.5 to 7.10 when the use of those characteristics would produce anomalies in the results;
- to make calculations by using approximations;
- to make calculations based on data relating to the policies on a date other than the date stipulated in paragraph 6.5 if the data relating to a policy are not available on such date; or
- adjust the number of common shares allocated on a notional basis to all eligible members.

In order to determine a range of offering prices that Industrial-Alliance and the underwriters consider appropriate, the board of directors of Industrial-Alliance may, at any time before the effective time of the conversion, adjust the total number of common shares that will be allocated to eligible members on the effective date of the conversion in relation to the number of common shares originally planned to be allocated to eligible members pursuant to paragraph 7.3. In such cases, the number of common shares that is to be allocated to each eligible member and in respect of eligible policies could be modified if deemed necessary.

Article 8 — Distribution of Conversion Benefits and Initial Public Offering (IPO)

8.1 Conversion Benefits to be Distributed

The total value of the conversion benefits to be distributed to eligible members is equal to the surplus of Industrial-Alliance upon the effective date of conversion.

An opinion addressed to the board of directors of Industrial-Alliance by the financial advisor is included in Chapter 8 of the Member Guide. A market valuation range for the common shares has been set approximately therein based on the assumption that the initial public offering would have occurred on August 10, 1999. Such range is also subject to other assumptions and limitations, observations and qualifications set out in the opinion.

8.2 Preference of Eligible Members

- (a) With the exception of the members mentioned in (i) of sub-paragraph (a) of paragraph 8.3, and subject to paragraph 8.4, eligible members are entitled to receive conversion benefits in the form of common shares or a cash amount, whichever they prefer.
- (b) Industrial-Alliance sends to eligible members entitled to it an election form on which members can indicate their preference to receive conversion benefits in the form of common shares or a cash amount.

8.3 Determination of the Form of Conversion Benefits

- (a) The following eligible members receive conversion benefits in the form of a cash amount:
 - (i) foreign members;
 - (ii) subject to paragraph 8.4, members who are allocated, on a notional basis in accordance with Article 7, fewer than 100 common shares and who have not elected to receive conversion benefits in the form of shares in accordance with paragraph (c);
 - (iii) subject to paragraph 8.4, eligible members, other than the members mentioned in sub-paragraph (ii), who have elected to receive conversion benefits in the form of a cash amount in accordance with paragraph (c).
- (b) Eligible members, other than the eligible members described in paragraph (a), receive conversion benefits in the form of common shares.
- (c) Eligible members are deemed to have elected to receive conversion benefits in the form of shares or cash only if Montreal Trust Company has received from said eligible members, before 5:00 p.m. on Thursday, October 28, 1999, the election form properly completed and on which their preference is indicated.

8.4 Limits with Respect to the Distribution of Conversion Benefits in the Form of a Cash Amount

- (a) The board sets the total amount of the funds to be distributed to eligible members entitled to receive conversion benefits in the form of a cash amount, which will not be greater than the gross proceeds from the IPO, excluding any cash amount allocated after the effective date of conversion as a result of a correction in accordance with paragraph 10.2, as a result of a review in accordance with paragraph 6.7 or as a result of an adjustment made by the appointed actuary in accordance with paragraph 7.11.
- (b) If the amount of the funds set by the board is not sufficient to pay a cash amount to all the eligible members mentioned in (ii) and (iii) of sub-paragraph (a) of paragraph 8.3 who, but for this paragraph, would receive conversion benefits in the form of a cash amount, a cash amount will be paid to these eligible members in ascending order, starting with the eligible members who are allocated the smallest number of common shares up to the eligible members who are allocated the largest number of common shares pursuant to Article 7, until the total amount set by the board has been paid. The last payment will be distributed equally among the eligible members who are allocated the same number of common shares and they will receive the balance of the benefits to which they are entitled in the form of common shares.
- (c) All eligible members who, after these distributions, have not received a cash amount will receive conversion benefits in the form of common shares only.
- (d) In all cases, foreign members will receive conversion benefits in the form of a cash amount.

8.5 Distribution of Conversion Benefits to Eligible Members

- (a) When conversion benefits are distributed to an eligible member in the form of common shares, the number of common shares he or she is entitled to receive will be equal to the number of common shares allocated to him on a notional basis pursuant to Article 7. Industrial-Alliance must issue such common shares to such eligible member on the effective date of conversion and, as soon as it is reasonably possible to do so after the effective date of conversion, must mail to the member a non-assignable written statement of the number of common shares issued to him or her. These shares will be registered in the member's name according to the book-entry system with the Canadian

Depository for Securities Limited, and the member has the right, upon request, to obtain, from the transfer agent of Industrial-Alliance, a share certificate for the number of common shares that he or she holds.

(b) When conversion benefits are distributed to an eligible member in the form of a cash amount, the cash amount which he or she is entitled to receive is equal to the number of common shares allocated to him or her on a notional basis pursuant to Article 7, multiplied by the initial offering price per share established for the IPO. As soon as it is reasonably possible to do so after the effective date of conversion, Industrial-Alliance must mail the member a cheque for such amount, after deducting applicable taxes and duties and other amounts that must be withheld.

(c) If the policyholder of the same insurance policy consists of more than one person, the conversion benefits to be distributed for such policy are distributed jointly in the name of all those persons.

(d) The rights of an eligible member who has died after the eligibility date to receive conversion benefits pass upon his/her heirs, excluding, if applicable, any beneficiary in the event of death and any subrogated policyholder designated for any insurance policy of which he/she is the policyholder.

8.6 Special Distribution Rule Applicable to Group Registered Retirement Savings Plans (“RRSPs”)

(a) Group RRSPs are policies that combine a number of individual registered retirement savings plans.

(b) The fixed component of the conversion benefits for a group RRSP accrues to the policyholder.

(c) The variable component accrues to the persons who are participants in this policy on the eligibility date and they have, with respect to the variable component, the same rights as the policyholders of non-group RRSPs who are eligible members.

(d) Industrial-Alliance will distribute these benefits among these participants according to the formula appearing in paragraph 7.10.

8.7 Restrictions on the Distribution of Conversion Benefits

(a) Subject to paragraphs (b) and (c) and any general law including the laws dealing with the rights of creditors, Industrial-Alliance may, without the intervention of another person, distribute conversion benefits to an eligible member or to his/her order.

(b) If, before the distribution of conversion benefits to an eligible member, the conversion benefits to be distributed are claimed by a person other than the eligible member, including:

- (i) as part of any actual or threatened action or proceeding to which Industrial-Alliance has been or may be a party; or
- (ii) as part of any other action or proceeding under which a competent court has granted an injunction or issued an order requiring Industrial-Alliance not to distribute conversion benefits to such eligible member and/or to distribute them to a person other than such eligible member, but only if the injunction or other order has been duly served to Industrial-Alliance.

Industrial-Alliance reserves the right not to distribute conversion benefits to the eligible member unless Industrial-Alliance receives (i) the prior written consent of the claimant and of the eligible member if the conversion benefits are to be distributed to the claimant; or (ii) an order from a court having jurisdiction authorizing Industrial-Alliance to distribute the conversion benefits or enjoining it to do so.

(c) If, before the distribution of conversion benefits to an eligible member, Industrial-Alliance has valid reasons to believe that competent authorities, including the authorities having jurisdiction over supplemental pension plans, could issue rules or orders affecting the rights of Industrial-Alliance or the distribution of the benefits to said member or to members in a similar position, Industrial-Alliance is authorized to withhold the payment of the benefits pending a decision by the competent authorities. It may also, at its discretion, initiate the proceedings necessary to obtain the required decisions.

8.8 Initial Public Offering of Common Shares

In order to fund the distribution of conversion benefits in the form of cash amounts, to provide institutional investors and other investors that are not currently eligible members with the opportunity to invest in common shares, to create an organized market for these common shares and facilitate the purchase and sale thereof and to raise funds in order to increase the capital of Industrial-Alliance, Industrial-Alliance intends to proceed with an IPO of common shares.

The IPO will be completed according to terms and conditions which the board may approve, through the issue of new common shares offered in Canada through underwriters selected by the board (the “underwriters”), and should be completed on the effective date of conversion.

8.9 Sale Service for the Common Shares

As of the 30th day following the effective date of conversion, Industrial-Alliance must provide to all shareholders residing in Canada a service to sell Industrial-Alliance common shares. Such service will be maintained by Industrial-Alliance for a period of at least two years. After that, it may be terminated by Industrial-Alliance at any time, but only after it has issued a public announcement to that effect. The shareholder must pay his or her share of all applicable costs, including the sales commission. The shareholder is subject to the general conditions prescribed periodically by the applicable regulatory authorities, including the securities regulatory authorities in Canada. This service is also subject to the other conditions determined by the board of directors.

Article 9 — Structure of the Accounts

9.1 The Participating Account and the Non-Participating Account, Before Conversion

Industrial-Alliance maintains a participating account which allows it to record separately the experience for a certain number of policies, primarily participating policies and policies described as participating policies. Industrial-Alliance also keeps a non-participating account for all the other policies issued by Industrial-Alliance.

9.2 New Account Structure

On the effective date of conversion, the following changes will be made simultaneously to the participating and non-participating accounts.

- (a) The participating account will be restructured and become the pre-conversion participating account. It will exclusively be comprised of participating policies and those described as participating policies, and will be allocated assets the value of which is necessary according to generally accepted actuarial methods and assumptions to fund an appropriate reserve for the policies covered by this account, with respect to guaranteed benefits, expenses, taxes and duties, and provisions for adverse deviations, as well as to meet reasonable expectations with respect to future policyholder dividends.
- (b) The liabilities corresponding to policies that are not described as participating policies and which, before conversion, were recorded in the participating account, will be moved to be recorded in the non-participating account.
- (c) All Industrial-Alliance general fund assets, except for the assets described in paragraph (a), will be credited to the non-participating account. If the conversion had been made on December 31, 1998, an additional amount of approximately \$1,430 million would have then been credited to the non-participating account with respect to individual and group annuity policies and an additional amount of \$255 million with respect to individual insurance policies.
- (d) The non-participating account will become the “shareholders’ account.”
- (e) If necessary, Industrial-Alliance will establish a new participating account, the “post-conversion participating account”, to record the experience of the participating policies issued after the effective date of conversion, if it subsequently decides to issue such policies.

9.3 Operation of the Pre-Conversion Participating Account

- (a) The status of the pre-conversion participating account is established at the end of each fiscal quarter of Industrial-Alliance or any other fiscal period determined by Industrial-Alliance.
- (b) The surplus in this account, after the funding of, or the payment of, the policyholder dividends, will be transferred to the shareholders’ account within 60 days after the end of the fiscal period used.
- (c) Any deficit in this account will be made up by a transfer from the shareholders’ account within 60 days after the end of the fiscal period used.

9.4 Operation of the Post-Conversion Participating Account

The post-conversion participating account is subject to the normal rules applicable to participating accounts for share capital insurance companies pursuant to *An Act respecting insurance*.

9.5 Winding-up of the Pre-Conversion Participating Account

If, in the actuary's opinion, the cost to Industrial-Alliance for operating the pre-conversion participating account exceeds the advantages for the policyholders for which this account is operated, Industrial-Alliance may, with the prior approval of and upon conditions fixed by the Inspector General of Financial Institutions, cease operating the pre-conversion participating account and this account will be merged with the shareholders' account.

9.6 Maintaining Practices in Force

The appointed actuary shall annually indicate in his report to the authorities, according to the agreed method, that the principles and methods used to establish dividends and premium or benefit adjustments with respect to the policies in force on the date of conversion are reflecting practices which are not less favourable than those that were applicable thereto on such date.

Article 10 — Additional Provisions

10.1 Public Market for Common Shares

Both The Montreal Exchange and The Toronto Stock Exchange have conditionally approved Industrial-Alliance's application for the common shares issued or to be issued to eligible members in accordance with Article 8, as well as of the other common shares issued as part of the IPO. Industrial-Alliance will make every effort to ensure that the listings of the common shares issued or to be issued on the effective date of conversion or thereafter are being maintained as long as Industrial-Alliance remains a company the shares of which are so listed. Said listings are not affected if Industrial-Alliance must issue additional common shares during the two years following the effective date of conversion pursuant to the applicable legislation and the requirements of The Montreal Exchange and The Toronto Stock Exchange.

10.2 Authority to Correct Errors

Industrial-Alliance may distribute additional conversion benefits in the form of common shares and/or cash amounts, issue additional common shares as part of the IPO, or take any other action that it deems relevant to correct errors, including calculation errors, occurring under this conversion proposal, and may also take the necessary actions to correct the errors, clarify the existing elements or make additions or correct omissions in this conversion proposal, provided that such actions or measures meet the purposes stated in Article 2 and the objectives stated in paragraph 7.2 of Article 7.

10.3 Modification or Withdrawal of the Conversion Proposal

- (a) The board of directors may modify this conversion proposal at any time before the vote is held at the special meeting.
- (b) Despite the approval of this conversion proposal by the members at the special meeting, the board may withdraw this conversion proposal at any time before the issue of the letters patent of conversion.
- (c) The provisions of Article 9 and of Appendix II may be modified from time to time after the effective date of the conversion with the approval of the Inspector General of Financial Institutions.

Dated August 10, 1999.

Industrial-Alliance Life Insurance Company



By: Raymond Garneau
Chairman of the Board
and Chief Executive Officer



By: Yvon Charest
President and
Chief Operating Officer

APPENDIX I

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY CONVERSION BY-LAW

1. **Definitions.** In this conversion by-law:
 - (a) “**Act**” means *An Act respecting conversion*, a private bill of the National Assembly of Québec pertaining to the conversion of the Company into a share capital company.
 - (b) “**Company**” means Industrial-Alliance Life Insurance Company.
 - (c) “**conversion proposal**” means the conversion proposal pertaining to the conversion of the Company from a mutual insurance company to a share capital insurance company.
 - (d) “**participating policyholder**” means the owners of participating policies of the Company.
 - (e) “**preferred securities**” means the outstanding 3,000,000 class B non cumulative preferred securities, series 1 of the Company.
2. **Conversion of the Company.** The Company is converted into a share capital insurance company pursuant to the conversion proposal and the Act.
3. **Name and Head Office of the Company.** The corporate name of the Company is L’Industrielle-Alliance Compagnie d’Assurance sur la Vie, and its English version is Industrial-Alliance Life Insurance Company. The head office of the Company is located at 1080 Chemin Saint-Louis, Sillery, Québec, G1K 7M3, or at any other address within the Communauté urbaine de Québec that the board of directors may determine from time to time by resolution.
4. **Classes of Insurance.** The Company is authorized to conduct business in all classes of life and health insurance.
5. **Election and Term of Office of Directors.** Directors are elected at the Company’s annual general meeting pursuant to the Company’s by-laws. The term of office of each director elected at any meeting held before December 31, 2003 shall be no more than three (3) years and the term of office of each director elected at any meeting held thereafter shall be no more than two (2) years.
6. **Directors upon Conversion.** The directors of the Company at the effective date of conversion remain in office for the remainder of their term.
7. **Description of Share Capital after the Conversion.** The authorized share capital of the Company is \$1,250,000,000. It is comprised of 100,000,000 common shares without par value, issuable for an aggregate consideration not exceeding \$1,000,000,000 and of 10,000,000 preferred shares with a par value of \$25 per share (for a total amount of \$250,000,000) issuable in series. Common shares issued by the Company to eligible members pursuant to the conversion proposal and the Act are deemed to be fully paid and non-assessable.

Paid-up Capital for Common Shares. The paid-up capital for common shares issued by the Company in accordance with the conversion proposal and the Act is equal to the surplus of the Company as of the effective date of conversion, after deduction of the total sum payable in cash by the Company in accordance with the conversion proposal and the Act.

Paid-up Capital for the Preferred Shares, Series 1. The paid-up capital for the preferred shares, series 1 is \$75,000,000.

Common Shares. The registered holders of common shares are entitled to receive such shareholder dividends as may be declared by the board of directors out of the funds duly reserved for the payment of shareholder dividends. The registered holders of common shares are entitled to receive a notice of meeting for all shareholders’ meetings of the Company and to attend such meeting, and may cast one vote per share held as a registered holder, at all such meetings, except meetings at which holders of another class or series of shares of the Company, are entitled to vote separately as a class or series. In the event of liquidation, winding-up or dissolution of the Company, voluntary or involuntary, or any other distribution of its assets to its shareholders for the precise purpose of liquidating its business, registered holders of common shares are entitled to a pro rata share of the Company’s remaining assets after payment of all creditors and all preferred claims in connection with the liquidation, if any, and related to the shareholders. The common shares rank junior to the preferred shares with respect to shareholder dividends and the distribution of assets upon liquidation,

dissolution or winding-up of the Company, voluntary or involuntary, or any other distribution of the assets of the Company to its shareholders for the precise purpose of liquidating its business.

The rights, privileges, restrictions and conditions attaching to the common shares as a class may only be added to, changed or removed with the approval of the holders of the common shares given as hereinafter specified.

The approval of the holders of the common shares to add to, change or remove any right, privilege, restriction or condition attaching to the common shares as a class may be given in such manner as may then be required by law, provided that such approval be given by resolution signed by all the holders of the common shares or passed by an affirmative vote of at least two-thirds ($\frac{2}{3}$) of the votes cast at a meeting of the holders of the common shares duly called for that purpose.

The formalities to be observed with respect to the giving of notice of any such meeting or any continuation of an adjourned meeting, the quorum required therefor and the conduct thereof shall be those from time to time required by law at the time of the meeting and those, if any, prescribed by the by-laws or the administrative resolutions of the Company with respect to meetings of shareholders. On every ballot taken at every meeting of the holders of the common shares as a class, each holder of common shares entitled to vote thereat shall have one vote in respect of each common share held.

Preferred shares. As a class, preferred shares have the following rights, privileges, restrictions and conditions:

Issuance in series. Preferred shares may, at any time and from time to time, be issued in one or more series, each series containing the number of preferred shares determined before they are issued by the board of directors.

Provisions pertaining to the series. Subject to the following provisions, which apply to all series of preferred shares, the directors will have the authority to determine by simple resolution and without other approval by the holders of common or preferred shares, the number and the designation of the preferred shares of each series together with any rights, privileges, restrictions or conditions pertaining to the preferred shares of each series, including, without limitation, the rate or the amount or the method of calculation and the method of payment of the shareholder dividends, both cumulative and non cumulative, the terms and conditions for redemption or purchase, any conversion or exchange privileges and the terms of such privileges. However, before issuing any preferred shares of a particular series, the directors shall obtain additional letters patent confirming the resolution adopted by the board of directors creating such series.

Dividends. During each of the Company's fiscal years, registered holders of preferred shares are entitled to receive cumulative or non-cumulative preferred dividends, when and if declared by the Company's directors, payable at the times, at the rates or in the amounts and at the location or locations to be determined by the directors for each series before any preferred shares of that series are issued.

No dividend may be declared and paid or set aside for payment at any time whatsoever during any of the Company's fiscal years on or with respect to any other share in its capital stock ranking junior to the preferred shares unless all the dividends accrued on all the preferred shares of the cumulative series have been declared and paid or set aside for payment and unless all the dividends declared on all the preferred shares of the non-cumulative series have been paid or set aside for payment.

Participation. Preferred shares will not otherwise participate in the profits or surplus of the Company.

Voting right. The holders of the Company's preferred shares will be entitled to be informed of any special meetings held by the Company, but they will not be entitled to attend to or vote at such meetings. They will be entitled to receive notice of, to attend to and to vote at any preferred shareholders' meetings, at which meetings they will have one vote per share.

Redemption. Subject to the provisions of the *Companies Act* and with the prior approval of the Inspector General of Financial Institutions, the Company may, upon the expiry of the period specified and according to the terms and conditions set for the series, redeem any redeemable preferred shares as per its terms and conditions. Such redemption may be accomplished on the redemption date set at the time of issue, but not before. However, redemption of series 2 preferred shares will not be subject to approval by the Inspector General of Financial Institutions.

The redemption price is equal to the amount established for the particular series at the time the shares are issued, plus, in the case of preferred shares of a cumulative series, all accrued and unpaid dividends and, in the case of non-cumulative preferred shares, all declared but unpaid dividends.

Any partial redemption will be made on a pro rata basis among the holders of all the preferred shares of the particular series outstanding at the time.

Purchase. Subject to the provisions of the *Companies Act* and with the prior approval of the Inspector General of Financial Institutions, the Company may purchase, by mutual agreement, for cancellation, all or part of the preferred shares outstanding at the time. The shares will be purchased at the best possible price, but may not exceed the redemption price as determined in the foregoing paragraph.

However, such a purchase may be made only at the end of a five-(5) year period following the issue date of the share.

Right of veto. No shares of the Company ranking prior or equal to the preferred shares may be issued and no changes to the rights and privileges attached to the preferred shares may be made:

- a) without the consent of three quarters (3/4) in value of the holders of existing preferred shares, present at a meeting called for such purpose; and
- b) without the prior approval of the Inspector General of Financial Institutions.

Exchange or conversion privilege. At the time each series of preferred shares is issued, the board of directors of the Company may specify that such shares will be exchangeable or convertible into common shares or into another series of preferred shares, depending on the terms and conditions set forth for the particular series.

All shares resulting from an exchange or a conversion will be considered issued and paid for.

Reimbursement. In the event of liquidation or other distribution of the Company's assets, the holders of preferred shares will be entitled to receive a sum equal to the issue price of their preferred shares plus any accrued and unpaid dividends or any dividends declared and unpaid, as the case may be.

Series 1 preferred shares. The 3,000,000 outstanding preferred securities issued on February 12, 1999 are converted into 3,000,000 series 1 preferred shares, to which will be attached the following rights, privileges, restrictions and conditions, in addition to the rights, privileges, restrictions and conditions attached to preferred shares as a class:

Issue price. The issue price of each converted preferred security was twenty-five dollars (\$25), and each series 1 preferred share is deemed to have been issued for the same amount.

Dividends. The holders of series 1 preferred shares will be entitled to receive the following non-cumulative preferential dividends, when and if declared by the Company's board of directors:

- until the end of an initial period of five (5) years starting February 12, 1999, an annual dividend of 1.00% of the issue price of the abovementioned shares, payable quarterly, the first quarter being the one in which the conversion takes place;
- for each of the five (5) subsequent years, and thereafter for each of the years included in each subsequent five-(5) year period, the dividend rate will be the highest of the rates indicated hereinafter, calculated on the issue price of the said shares:
 - a) the annual interest rate, established on the fifteenth day of the month preceding the month in which each of the abovementioned five-(5) year periods begins, corresponding to the yield on 5-year Canada bonds (as this term is defined hereinafter), expressed as a percentage, plus 1.50%, payable quarterly;
 - b) the prime rate (as this term is defined hereinafter) of the National Bank of Canada (or any successor Canadian chartered bank) determined on the first day of each of the abovementioned five-(5) year periods, plus 1.50%, payable quarterly;
 - c) the dividend rate in effect during the previous five-(5) year period, payable quarterly.

Quarterly payments of said dividends will be paid on March 31, June 30, September 30 and December 31 of each year, with appropriate adjustment for any incomplete quarter.

No dividend may be declared and paid or set aside for payment at any time whatsoever during any of the Company's fiscal years, on or with respect to any other share in its capital stock ranking junior to the series 1 preferred shares, unless all the dividends accrued on all the preferred shares of the cumulative series have been declared and paid or set aside for payment and all the dividends declared on all the preferred shares of the non-cumulative series (including series 1) have also been paid or set aside for payment.

For the purpose of establishing the abovementioned dividend rates, the following terms will have the following meaning:

“Yield on 5-year Canada bonds” on any date refers to the yield to maturity on this date, compounded semi-annually, that a non-redeemable bond issued by the Government of Canada would bear if it were issued in Canadian dollars, in Canada, at 100% of its capital amount on such date with a term to maturity equal to approximately five (5) years, all as determined jointly by two major Canadian securities dealers selected from time to time by the Company from among the members of the Quebec division of the Investment Dealers Association of Canada or, if this association ceases to exist, another association selected by the Company and having the same members. In the event of any disagreement between the abovementioned dealers, the yield will be the arithmetical average (rounded to four decimals) of the percentage determined by each of the two dealers.

“Prime rate” means, with respect to any bank, the preferred rate this bank charges its Canadian customers for commercial loans in Canadian dollars as this rate may fluctuate from time to time.

Redemption. Subject to the provisions of the *Companies Act*, and with the prior approval of the Inspector General of Financial Institutions, the Company may, as of February 12, 2004, redeem any portion of the series 1 preferred shares not converted into common shares, at a price per share equal to twenty-five dollars (\$25), plus any declared and unpaid dividends.

When redeeming series 1 preferred shares, the Company will send a thirty-(30) day notice in writing to the holder or to his/her duly authorized representative. During this period, the holder may elect to exercise his/her right, if applicable, to exchange them for common shares. This notice will indicate the number of series 1 preferred shares the Company wishes to redeem, the date of redemption, the redemption price and the calculation method thereof. The price payable for the series 1 preferred shares to be redeemed by the Company shall be payable on the redemption date specified in the abovementioned redemption notice, and said redemption will be considered to have been accomplished on the date of the payment thus made. If only a portion of the series 1 preferred shares is redeemed, then any payment made to the holders will be accompanied by a new certificate representing any series 1 preferred shares not redeemed.

As of the date of payment, the preferred shares called for redemption will cease to entitle their holders to dividends, and their holders may no longer exercise the rights attached thereto, unless the Company omits to pay the redemption price upon presentation and submission of their certificates, in accordance with the foregoing provisions.

Any partial redemption will be made on a pro rata basis among the holders of all series 1 preferred shares outstanding at that time.

Exchange (conversion) privilege for common shares. Holders of series 1 preferred shares may exchange all or part of their series 1 preferred shares for common shares of the Company at a conversion price equal to 95% of the market value of said common shares, this market value being established and corresponding to the weighted average of the trading prices on The Montreal Exchange (or if the common shares are not listed on such exchange, on any other exchange on which said shares are listed) for said common shares during the fifteen (15) days preceding the date the Company receives the holder’s notice of conversion and during which said common shares were bought or sold.

However, in the event of a public offering by the Company of its common shares, then the conversion price will be equal to the issue price of said common shares of the Company, provided that the notice of conversion is given by the holder or his/her duly authorized representative no later than forty-five (45) days after said public offering.

This exchange (conversion) right may be exercised on or after the first anniversary of the date on which the common shares are listed on The Montreal Exchange or, if the common shares are not listed on such exchange, on any other exchange on which said shares are listed, subject to approval by the particular stock exchange.

The abovementioned right of conversion will be limited to \$18,750,000 per year of the paid-up capital of the series 1 preferred shares, this minimum amount being cumulative as of the date on which such shares become convertible. However, for any conversion requested by the holder in any year, starting with the year in which the abovementioned preferred shares become convertible, the par value of said shares that can be converted for said year (subject to the right of accumulation abovementioned) will correspond to the portion of the abovementioned limit of \$18,750,000 that is equal to the number of days elapsed in the year on the date of the conversion notice, in relation to the number of days in the particular year. However, under no circumstances will the conversion of preferred shares into common shares result, either directly or indirectly, in conferring upon the holder thereof more than ten percent (10%)

of the voting rights attached to the shares issued by the Company, including any shares already owned and any shares acquired upon the conversion.

To accomplish the conversion of shares provided for herein, a written notice signed by the holder or the holder's duly authorized representative must be presented or sent. Such notice will indicate the number of preferred shares that the holder wishes to convert. No later than twenty (20) days following receipt of this notice, the Company will proceed with the required verifications and will issue one or more certificates representing the number of common shares to which the holder is entitled as a result of the conversion. Unless (i) the Company gives the holder a notice of conversion into series 2 preferred shares (as provided for hereafter) or (ii) the holder gives the Company a notice of revocation (as provided for hereafter), the holder will be deemed to be the holder of the common shares required by the conversion and will thus have all the rights and privileges attached to these shares from the Company's receipt of the abovementioned written notice of conversion.

All the common shares resulting from the conversion of series 1 preferred shares will be deemed issued and paid.

Holders who gave a notice of conversion into common shares may, within the twenty (20) days following such notice, revoke such notice, provided that they have not yet received a notice of conversion into series 2 preferred shares ("revocation notice"). In the event of such revocation, the series 1 preferred shares subject to the notice of conversion into common shares will be deemed not to have been converted, and the particular notice of conversion into common shares will have no effect.

Conversion into series 2 preferred shares. Subject to obtaining all the required authorizations beforehand (but without any need for additional letters patent), the Company may at any time convert the series 1 preferred shares, covered by a notice of conversion into common shares, into series 2 preferred shares. Such conversion will be made by means of a notice that the Company must give to the holder of the particular series 1 preferred shares no later than the 20th day following receipt of the notice of conversion into common shares. The Company may waive the conversion into series 2 preferred shares in writing prior to the end of the twenty-(20) day period, in which case the Company will issue one or more certificates representing the number of common shares to which the holder is entitled as a result of the conversion and the series 1 preferred shares will be deemed to have been exchanged (converted) on the date the Company receives the notice of conversion into common shares. The notice of conversion is irrevocable and applies to all the series 1 preferred shares mentioned in the notice of conversion into common shares. Consequently, if such a notice of conversion into series 2 preferred shares is given, the series 1 preferred shares subject to such notice will be deemed not to have been converted into common shares, and the particular notice of conversion into common shares will have no effect. There will be the same number of series 2 preferred shares as the series 1 preferred shares converted.

Unless the holder gives the Company a notice of cancellation (as described hereinafter), the holder will be deemed to be the holder of the series 2 preferred shares and will thus have all the rights, privileges and will be subject to all the restrictions and conditions attached to these shares from the moment the holder receives the written notice of conversion into series 2 preferred shares.

All the series 2 preferred shares resulting from the conversion of series 1 preferred shares will be deemed issued and paid.

Series 2 preferred shares. In addition to the rights, privileges, restrictions and conditions attached to preferred shares as a class, the 3,000,000 series 2 preferred shares have the following rights privileges, restrictions and conditions:

Restrictions on issue. The 3,000,000 series 2 preferred shares are issued only for the purposes of converting series 1 preferred shares into series 2 preferred shares. The series 2 preferred shares will be deemed to have been issued as soon as the Company, with the approval of the Inspector General of Financial Institutions, has given the applicable notice of conversion within the prescribed time period.

Issue price. Each series 2 preferred share is deemed to have been issued for the amount of twenty-five dollars (\$25).



Dividends. Holders of series 2 preferred shares are entitled to receive the following non-cumulative preferred dividends when and if declared by the directors of the Company:

- until the end of an initial five-(5) year period beginning on February 12, 1999, an annual dividend of 1.00% of the issue price of the abovementioned shares, payable quarterly, the first quarter being the one during which the conversion took place;
- For each of the five(5) subsequent years, and thereafter for each of the years included in each subsequent five-(5) year period, the dividend rate will be the highest of the rates indicated hereinafter, calculated on the issue price of the abovementioned shares:
 - a) the annual interest rate, established on the fifteenth day of the month preceding the start of each of the five-(5) year periods abovementioned, corresponding to the yield on 5-year Canada bonds (as this expression is defined hereinafter), expressed as a percentage, plus 1.50%, payable quarterly;
 - b) the prime rate (as this expression is defined hereinafter) of the National Bank of Canada (or any successor Canadian chartered bank) determined on the first day of each of the abovementioned five-(5) year periods, plus 1.50%, payable quarterly;
 - c) the dividend rate in force during the preceding five-(5) year period, payable quarterly.

Quarterly payments of said dividends will be made on March 31, June 30, September 30 and December 31 of each year, with appropriate adjustment for any incomplete quarter.

No dividend may be declared and paid or set aside for payment at any time whatsoever during any of the Company's fiscal years on or with respect to any other share in its capital stock ranking junior to the series 2 preferred shares unless all the dividends accrued on all the preferred shares of cumulative series have been declared and paid or set aside for payment and unless all the dividends declared on all the preferred shares of non-cumulative series (including series 2) have also been paid or set aside for payment.

For the purpose of establishing the abovementioned dividend rates, the following expressions will have the following meaning:

“Yield on 5-year Canada bonds” on any date, means the yield to maturity on this date, compounded semi-annually, that a non-redeemable bond issued by the Government of Canada would bear if it were issued in Canadian dollars, in Canada, at 100% of its capital amount on such date with a term to maturity equal to approximately five (5) years, all as determined jointly by two major Canadian securities dealers selected from time to time by the Company from among the members of the Quebec division of the Investment Dealers Association of Canada or, if this association ceases to exist, another association selected by the Company and having the same members; in the event of any disagreement between the abovementioned dealers, the yield will be the arithmetic average (rounded to four decimals) of the percentage determined by each of the two dealers.

“Prime rate” means, with respect to any bank, the preferred rate this bank charges its Canadian customers for commercial loans in Canadian dollars, as this rate may fluctuate from time to time.

Redemption. The series 2 preferred shares can be redeemed at the Company's option at a price per share equal to the issue price multiplied by 1.0526. However, series 2 preferred shares will be redeemed at the issue price if the Company has made a public offering within 45 days preceding the date of the notice of conversion into common shares that triggered the issue of the shares subject to redemption. In all cases, declared and unpaid dividends are added to the redemption price.

Redemption of the series 2 preferred shares must be made by the Company within two (2) business days of a notice of redemption given by the Company and will be conditional upon the issue by the Company, within such two-(2) day period, of new series 3 preferred shares fully paid in cash for the same amount as that to be paid to redeem the series 2 preferred shares covered by said notice of redemption. Such notice of redemption must be received by the holder no later than one (1) business day following receipt by the holder of the notice of conversion of series 1 preferred shares into series 2 preferred shares. Such notice will mention the redemption date and the method for calculating the redemption price. The price to be paid for the series 2 preferred shares will be payable on the redemption date set forth in the abovementioned notice of redemption (this date may not be more than two (2) business days after the notice) and such redemption will be deemed to have been completed on the date payment is effectively made. However, if the Company does not give the holder a notice of redemption or does not pay the redemption price within the prescribed time periods, the holder may give the Company a notice of cancellation indicating that he/she

wishes to cancel the notice of conversion into common shares or, at his/her option, force the conversion into common shares on the date of the notice of conversion into common shares (the “notice of cancellation”).

As of the date of payment, the series 2 preferred shares thus redeemed will cease to entitle their holders to dividends, and their holders may no longer exercise the rights attached thereto except in the event the Company omits to pay the redemption price.

Series 3 preferred shares. In addition to the rights, privileges, restrictions and conditions attached to preferred shares as a class, the 3,000,000 series 3 preferred shares have the following rights, privileges, restrictions and conditions:

Issue price. The issue price of each of the series 3 preferred shares will be twenty-five dollars (\$25).

Redemption. Subject to the provisions of the *Companies Act* and with the prior authorization of the Inspector General of Financial Institutions, the Company may, beginning on the 5th anniversary of the date of their issue, redeem the portion of series 3 preferred shares not converted into common shares at a price equal to twenty-five dollars (\$25) per share, plus any declared and unpaid dividends.

To accomplish the redemption of said series 3 preferred shares, the Company will send a two-(2) day written notice to the holder or his/her duly authorized representative. Such notice will mention the number of series 3 preferred shares that the Company wishes to redeem, the redemption date and the price to be paid for such shares, as well as its basis of calculation. The price to be paid for the series 3 preferred shares thus redeemed by the Company will be payable on the redemption date set forth in the abovementioned notice of redemption, and this redemption will be deemed to have been made on the date payment is effectively made. If only a portion of the series 3 preferred shares is redeemed, the payment made to the holders must be accompanied by a new certificate representing the series 3 preferred shares not redeemed.

As of their date of payment, the preferred shares called for redemption will cease to entitle their holders to dividends, and their holders may not longer exercise the rights attached thereto, unless the Company omits to pay the redemption price, upon presentation and delivery of their certificates in accordance with the provisions hereinabove.

Any partial redemption will be made on a pro rata basis among the holders of all the series 3 preferred shares outstanding at the time.

Exchange (conversion) privilege into commons shares. Holders of series 3 preferred shares may exchange all or part of their series 3 preferred shares for common shares of the Company at a conversion price equal to the market value of said common shares, such market value being established at and corresponding to the weighted average of trading prices on The Montreal Exchange (or if the common shares are not listed on such exchange, on any other exchange on which said shares are listed) for said common shares during the thirty (30) days preceding the date the Company receives the holder’s notice of conversion and during which said common shares were bought or sold.

This exchange (conversion) right may be exercised beginning on the 5th anniversary of their issue date.

To accomplish the exchange of shares provided for herein, a seven-(7) day written notice signed by the holder or his/her duly authorized representative must be presented or sent. Such notice will mention the number of preferred shares that the holder wishes to exchange. At the end of the exchange (conversion) period provided for and if the Company has not issued a notice of redemption, the Company will proceed with the required verifications and will issue one or more certificates representing the number of common shares to which the exchange (conversion) entitles the holder. The holder will be deemed to be the holder of the common shares required by the exchange (conversion), and will thus have the rights and privileges attached to these shares once the Company receives the abovementioned written notice of exchange (conversion).

All the common shares resulting from the conversion of series 3 preferred shares will be deemed issued and paid.

8. **Modification or cancellation.** The board of directors may modify this conversion by-law prior to the vote of policyholders at the special meeting in accordance with the conversion proposal and the Act. Additionally, the board of directors may cancel this conversion by-law at any time prior to the issuance of letters patent of conversion in accordance with the conversion proposal and the Act.
9. **Request for issue of letters patent of conversion.** The board of directors is authorized to request, on behalf of the Company, the issuance of letters patent of conversion in accordance with the conversion proposal and the Act.

APPENDIX II

Policyholder Dividend Policy for the Pre-Conversion Participating Account

As part of the conversion into a share capital company, the board of directors has adopted a policyholder dividend policy applicable to the participating policies included in the pre-conversion participating account. This policy guarantees the application to these policies of the principles and method to calculate policyholder dividends in force on the effective date of conversion, and reflects the past practices of the Company with respect to policyholder dividends. This policy will meet the legitimate expectations of policyholders for the policies included in the pre-conversion participating account.

Pre-Conversion Participating Account

The pre-conversion participating account includes all participating policies, as well as those described as participating policies in the policy remitted to the policyholder, which are in force on the effective date of conversion. This account also includes the benefits added to these policies after the effective date of conversion. After being used firstly to pay policyholder dividends established pursuant to this policyholder dividend policy, profits earned by the policies in this account will be transferred to the shareholders' account.

Basis of Equity for the Distribution of Policyholder Dividends

The sums available to establish the amount of the periodic policyholder dividends come from the difference between the experience of the Company for a policy category and the assumptions on which the premiums and the other elements of the policies in that category are based. The policies covered are combined by category according to the contribution method recognized by the Canadian Institute of Actuaries. Combining the policies guarantees that similar policies are treated in the same way. Equity among policyholders within a single category is an important objective.

Types of Policies Covered by the Pre-Conversion Participating Account

1. *Participating Policies that Provide for Periodic Policyholder Dividends*

Policyholders with these policies currently receive policyholder dividends every year or every five years under the policyholder dividend schedule adopted annually by the board of directors.

The policies providing that periodic policyholder dividends will be allocated only after a number of years specified in the policy will receive policyholder dividends at the time specified, subject to the same conditions that apply to other policies that provide for periodic policyholder dividends.

2. *Policies Described as Participating Policies*

Policyholders with these policies may in theory receive policyholder dividends, but no special provision in the policy requires the payment of policyholder dividends. These policies represent an important portion of the policies recorded in the pre-conversion participating account of Industrial-Alliance and these policyholders do not receive policyholder dividends.

Process and Roles

The management of the Company makes recommendations to the board of directors concerning the amount and the method of distribution of policyholder dividends to participating policyholders. In addition, the Company's actuary must confirm to the board that management's recommendations comply with the following:

- the policyholder dividend policy; and
- the standards of the Canadian Institute of Actuaries.

The amount to be distributed from the pre-conversion participating account is determined taking into account the gains realized on the policies covered, the contractual provisions of the policies, and the reasonable expectations of policyholders with respect to future policyholder dividends.

The Company will transfer from the shareholders' account the sum necessary to make up any deficit in the pre-conversion participating account and meet the reasonable expectations of policyholders with respect to future policyholder dividends. Any portion of the assets of the pre-conversion participating account not required to meet the obligations stated in the policies covered by such account and the reasonable expectations of policyholders concerning future policyholder dividends will be transferred to the shareholders' account.

Post-Conversion Participating Account

If, after the conversion, the Company decides to issue new participating policies, these policies will be recorded in another account, the post-conversion participating account.

The board of directors will then adopt a specific policyholder dividend policy for the policies included in the post-conversion participating account. Such account will be subject to the normal provisions governing participating funds of share capital companies.

However, the Company does not plan to issue participating policies in a foreseeable future.

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Experts' Reports

- Report of the Appointed Actuary
- Report of the Independent Actuary
- Opinion of the Financial Advisor
- Canadian Federal and Québec Tax Considerations
- Auditors' Report on the Mutualist File

REPORT OF THE APPOINTED ACTUARY

Industrial-Alliance is a Québec chartered company. Thus, it is governed by *An Act respecting insurance* (L.R.Q., Chapter A-32). This law contains no provisions concerning the demutualization of mutual insurance companies. With the agreement of the Inspector General of Financial Institutions, we are providing information similar to the information required as part of the demutualizations in progress for federally chartered insurance companies. This report is presented in this context.

Statement

I was appointed as actuary for Industrial-Alliance Life Insurance Company by a resolution of the board of directors on March 8, 1999. I am a member of the Canadian Institute of Actuaries. I actively participated in the preparation of the various elements of the conversion plan, particularly the distribution formula and the restructuring of participating accounts.

This report is provided in connection with the application of the proposed conversion of Industrial-Alliance, a mutual company, into a share capital company. It is intended to inform the board of directors as well as the policyholders who will have to vote on the conversion plan during a special meeting held for this purpose. The terms used in this report have the same meaning as that given to them in the *Member Guide*, except where otherwise indicated.

In my opinion:

- The benefits and the allocation method used to distribute the value of Industrial-Alliance among eligible policyholders are fair and equitable.
- The assets allotted to the pre-conversion participating account as well as the future premiums paid by the policyholders associated with this account should be sufficient to discharge all contractual obligation of Industrial-Alliance to these policyholders and to meet their reasonable expectations concerning future policy dividends and any other contractual benefit not expressly guaranteed.
- As the Company has ceased issuing new participating contracts, it does not have to create a post-conversion participating account at the time of conversion, so that all surplus assets of the pre-conversion participating account are included in the shareholders' account. These assets as well as future premiums paid by the policyholders associated with the shareholders' account largely exceed the sums required to meet all contractual obligations to these policyholders.
- The policies which are transferred from the participating account to the shareholders' account in the context of the conversion retain all their contractual rights, and any reasonable expectation of their holders with respect to other non-guaranteed contractual benefits will be respected. None of these contracts contained provisions providing for the payment of policy dividends.
- The conversion of Industrial-Alliance into a share capital company will have no negative impact on the level of financial health of the Company or its ability to continue to grow.

Allocation Method

As part of its conversion into a share capital company, the Company's value is distributed to all eligible policyholders. The allocation method of this value is a major component of the conversion process. It must respect the rights of each policyholder and be equitable with regard to their respective contribution to the accumulation of the value to be distributed.

- (a) Under the general by-laws of Industrial-Alliance and *An Act respecting insurance*, all policyholders are members of the Company with all the rights that this imparts. More particularly, they have a right to vote during general meetings. They may thus give their opinions concerning the Company's major orientations and elect its board members. Federally chartered insurance companies generally consider only holders of participating policies to be members, which can significantly reduce the number of policyholders who are attributed benefits in connection with a demutualization. The allocation method used takes this aspect into account, particularly with respect to the wide diversity of eligible policies.
- (b) One component provides for the attribution of a set number of shares to each eligible policyholder. In a mutual company, each policyholder (member) has one vote regardless of whether he or she owns one or more policies or whether the coverage (protection) or the premium of these policies is large or small. The conversion of the

Company into a share capital company results in the loss of control of the policyholders in favour of the shareholders. These shareholders will have the ability to elect two-thirds of the members of the board of directors. As in the case of many other conversions in Canada and elsewhere in the world, this type of component was deemed pertinent for compensating this loss of control. The portion of the Company's value attributed to this component varied substantially from one company to another, being situated between 10% and 30%. The weight put on this portion depends on the balance sought between two elements:

- (i) the desire to attribute a minimum value to each policyholder; and
- (ii) the equity to be maintained between the policyholders, given the very broad range of policies involved.

Among the eligible policyholders, some hold contracts under which the protection and premiums are quite low, for example, coverage of a few hundred dollars or an annual premium under \$20, while others own group policies with coverage and annual premiums of several million dollars. Such diversity argues in favour of a fixed component whose amount is situated at the bottom of the range observed. Therefore, approximately 10% of the Company's value is distributed as a fixed number of shares per eligible policyholder, which seems appropriate under the circumstances.

- (c) By limiting the fixed number of shares allocated to each eligible policyholder, the second component gains in importance. This component provides for a variable number of shares depending on the characteristics of each policy. For this component as well, the fact that all our policyholders are members was taken into consideration.
- (d) All the lines of business of Industrial-Alliance contributed in varying degrees to the Company's value. In my opinion, it is entirely pertinent, prior to attributing a portion of the Company's value to each policy, to take into account the line of business to which it belongs. The Company has the data necessary to determine the portion of the surplus generated by each line of business. Therefore, before determining the allocation formulas to be applied to each policy, the shares to be allocated according to the variable component were divided by line of business according to the surplus of each line of business compared to the total surplus.
- (e) Once the proportion of shares attributed to policies in the same line of business is established, it becomes possible to develop an allocation formula suited to the policies in that line of business.

To determine the allocation formulas for each line of business, it was necessary to choose the most pertinent characteristics of the policies. In doing this, the Company added to its objectives of equity and fairness the objectives of simplicity and ease of comprehension for eligible policyholders. Given the complexity of a process such as demutualization, it is important not to add to this complexity.

Additionally, the different allocation formulas use those policy characteristics the policyholders are normally most familiar with and whose value they can assess, such as the amount of life insurance coverage, the annual premium, the duration from the establishment of the policy, etc. If it had been necessary to use theoretical values such as the actuarial reserves or other actuarial concepts, the overall appraisal of the allocation formulas would have been so arduous that the formula itself could have been called into question with respect to fairness and equity. Furthermore, the use of such concepts would not have guaranteed greater equity in allocating the Company's value.

- (f) Tests were conducted to determine the overall contribution to the surplus from eligible policyholders. These tests revealed that approximately 30% of policyholders' equity comes from policies currently in force, and that therefore, 70% comes from policies issued since the Company was founded in 1892 and which are no longer in force.

In targeting the objectives of simplicity and ease of comprehension, the Company took this aspect into account. In general, as part of the demutualization, eligible policyholders will receive the total value of the Company even if they contributed less than half of it. This results in a fortuitous benefit that will go far beyond the reasonable expectations of policyholders in this regard.

- (g) Before completing the work related to the allocation formulas, the Company made sure that eligible holders of participating policies would receive a proportion of the Company's value at least equal to the proportion of policyholders' equity (surplus) accounted for in the participating policies account. As specified below, policyholders' equity accounted for in the participating policies account is transferred to the shareholders' account as part of the conversion. However, this transfer is not prejudicial to the interests of holders of participating

policies since they are allocated a total amount at least equal to their proportion of the policyholders' equity (surplus).

The entire procedure aimed at determining the method for allocating the Company's value to each of our eligible policyholders therefore complies with the criteria of fairness and equity that the Company set for itself at the outset. This method is suited to the particular situation of Industrial-Alliance and its members.

Allocation Formulas

The various allocation formulas used for each line of business are presented in Article 7 of the conversion proposal. The following table indicates the proportion of shares attributed according to the fixed component per policyholder and according to the variable component per policy. For the variable component, the table also presents the proportions attributed to each line of business according to the proportion of the surplus generated by each line:

	Proportion of the Company's value (%)
Fixed component	9.8
Variable component	
individual insurance — life	45.8
individual insurance — health	0.3
individual annuities	19.7
group insurance — life and health	6.4
group annuities	<u>18.0</u>
Total	<u><u>100.0</u></u>

Up to this point, this report has discussed the allocation by making reference to the Company's value. This value is theoretically composed of several elements:

- (i) policyholders' equity, which corresponds to the profits accumulated by the Company over the years;
- (ii) the value represented by the profits to be generated by policies in force over the coming years as the provisions for adverse durations, created to guard against an unfavourable experience are no longer required; and
- (iii) the value linked to the Company's ability to produce new sales, which, over a long period, will produce additional income.

In practice, financial markets will determine the value assigned to the Company based on the value of its shares. This value will fluctuate over time.

We have performed a valuation, on a theoretical basis, of the minimum and maximum limits within which the Company's value could be established, without taking into account the ability to produce new sales, in order to maintain a certain conservatism in our assessment. Thereafter, the Company examined the value assigned by the markets to certain companies within the financial sector in Canada and elsewhere. It also consulted the financial advisor hired for this purpose. At the end, the Company determined that the allocation of the Company's value to eligible policyholders would be based on approximately 35 million shares. The financial markets will determine the price of the shares.

Once the total number of shares was determined, various parameters were determined by line of business to ensure that the amount of shares allocated to each policy of a line of business corresponded to the total number of shares allocated to that line under the variable component.

Finally, I must indicate that a readjustment was made with respect to the policies acquired from Canadian Union in December 1996. Since Industrial-Alliance purchased the insurance portfolio of this company, it paid not only an amount corresponding to the value of the liabilities related to these policies, but also an amount representing the value of the anticipated profits on these policies. Contrary to a merger, the assets corresponding to profits already realised in the past on these policies were not transferred to Industrial-Alliance. Since it is the policyholders of Industrial-Alliance who assumed the liabilities of Canadian Union, it is justified to take this into account in the formulas used. Thus, the formula related to the individual life insurance line of business was adjusted to limit the portion of the value allocated to the policies acquired from Canadian Union. It is different for mutual companies that have merged their activities, since all the assets, liabilities and policyholders' equity were then pooled instead of purchased.

Restructuring the Participating Account

On the effective date of conversion, the Company will restructure its participating account, which will then become the pre-conversion participating account, in order to maximise the value of the Company for allocation to its policyholders.

This will result in the following changes:

- (i) Industrial-Alliance stops issuing participating contracts so that no new participating contract will be added to the pre-conversion participating account. However, if additional coverages are added to existing participating accounts after the conversion date, these coverages will be accounted for in this account. In the event the Industrial-Alliance again offers participating contracts, such contracts will be recorded in a different account, the post-conversion participating account. This new account will be created at that time and will be subject to the general provisions governing participating accounts maintained by share capital companies.
- (ii) The non-participating account becomes the shareholders' account and all non-participating contracts will be grouped in this account. Some of these contracts have historically been classified with the participating contracts. This had no particular impact for a mutual company that considered all its policyholders to be full legal members. However, in the case of a share capital company, it becomes imperative to classify carefully all contracts to ensure, first, that the voting rights granted to participating contracts are not diluted and that the participating account is accurately kept so that the reasonable expectations of the holders of such contracts are met and so that the benefits granted by the Company (shareholders' account) are valued precisely.
- (iii) The portion of policyholders' equity accumulated in the participating account is transferred to the shareholders' account to maximise the value of the Company for allocation to eligible policyholders. The analyses I have made have allowed me to verify that the policyholders who have contributed to the accumulation of the policyholders' equity included in the participating account will receive as a group a portion of the value of the Company that is at least equivalent, and which therefore meets the objectives of fairness and equity.
- (iv) The profits generated in the pre-conversion participating account for each future year will be transferred to the shareholders' account, after deduction of the policyholder dividends payable under the participating contracts. These profits generally correspond to the provisions for adverse durations included in the actuarial reserves for each future year that are freed up annually because actual experience did not require the use of such provisions. The Company will also grant additional guarantees to its participating policyholders. Effectively, Industrial-Alliance has adopted a participation policy under which it agrees, without time limits, to maintain the approach that it currently uses to establish the level of policy dividends allotted to the holders of participating contracts. In addition, if the pre-conversion participating account ever incur a deficit, the shareholders' account will transfer the sums required to make up for any deficit.
- (v) Under the approach presently used to determine the level of policy dividends, these dividends may fluctuate over the years as they have in the past, to the extent that the experience incurred for the dividend paying policies improves or deteriorates. However, as part of the restructuring of the pre-conversion participating account, analysis were performed to make sure that the assets associated with the participating contracts will be matched with the liabilities according to the Company objectives. These analysis are based not only on the level of returns expected or guaranteed, but also on the amounts expected to be paid on the basis of mortality rates, lapse rates, and the level of expenses and taxes. To do this, most probable assumptions have been used and the assets selected have been chosen among those currently associated with the policies included in the participating account. Thus, the effect of each of the items used to determine the level of policyholder dividends should not be significantly modified by the conversion. The reasonable expectations of the holders of participating contracts will be not only maintained, but I am confident that any variation in these items will have as favourable an impact on the level of policyholder dividends as it would have had prior to conversion.

Each year, the appointed actuary will confirm to the board that the participation policy has been respected and that the level of dividends granted to holders of participating contracts respects the commitments made in the conversion proposal. This will allow the board to ascertain that the reasonable expectations of these policyholders have been met.

Maintenance of Financial Health

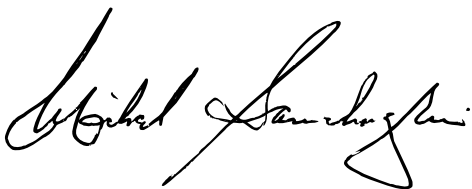
The conversion of Industrial-Alliance will not affect the financial health of the Company. The Company has accumulated surpluses that represent more than 600 million dollars at June 30, 1999. At the time of conversion, the surplus of the shareholders' account will be reduced by approximately 38 million dollars, a sum that will be recorded as a minority interest for the holders of participating contracts issued by National Life and North West of Canada. However, this accounting change will not influence the amount of the surplus available under the rules governing the calculation of the solvency level of the Company issued by the Inspector General of Financial Institutions.

The Company could incur expenses of approximately 18 million dollars for the conversion and the initial public offering (IPO) after all tax considerations. These expenses may be compensated by a withholding from the amounts obtained under the IPO so as not to affect the Company's surpluses.

The board also has the possibility to add to the capital of the Company if it believes that sums are required in this respect. These sums would also be taken from the amounts obtained in the IPO. The conversion of the Company will facilitate its access to the financial markets and it will then be in a better position to ensure its growth.

The current level of available capital largely exceeds the requirements of the Inspector General of Financial Institutions and represents more than 180% of the surplus required under these requirements. In addition, the work I performed as part of my Dynamic Capital Adequacy Testing indicates that the conversion of the Company into a share capital company will have no negative impact on its financial health and that the Company will remain able to meet unfavourable situations without endangering its solvency.

In conclusion, the assets of the Company, the anticipated investment revenues, and the future premiums paid by policyholders will allow the Company to meet its commitments to its policyholders of participating and non-participating contracts. Its surplus and improved access to financial markets will allow it to maintain its financial health and continue its growth.

A handwritten signature in black ink, reading "Michel Sanschagrin". The signature is fluid and cursive, with the first name "Michel" and last name "Sanschagrin" clearly distinguishable.

Michel Sanschagrin
Vice-President and General Manager
Actuarial and Control

August 10, 1999

REPORT OF THE INDEPENDENT ACTUARY

Role of Independent Actuary

I, Jean-Louis Gauvin, a partner with Ernst & Young and a fellow of the Canadian Institute of Actuaries, have the qualifications required to issue the professional opinion expressed herein. The Board of Directors of Industrial-Alliance Life Insurance Company has mandated me to provide an independent actuarial opinion on its proposal to transform the Company into a shareholder-owned company.

In addition to acting as an independent actuary in similar cases, I served as an independent actuary in 1969 when Industrial, then a shareholder-owned company, became a mutual company.

I hereby declare that I have no personal interest in the proposed transformation.

Scope of Report and Opinion

Industrial-Alliance Life Insurance Company plans to become a shareholder-owned company. It will continue to be governed by the Québec *Act respecting insurance*.

Under the proposed transformation, eligible or mutual members of Industrial-Alliance will be allocated common shares of the Company. In certain circumstances, mutual members may receive cash amounts equivalent to the share allocation. In this report, the term “eligible member” or “mutual member” means the person referred to in article 6.1b) of the transformation proposal.

Responsibility for all the contractual obligations of Industrial-Alliance will be assumed by the new life insurance company. Policy terms and conditions will not change, and all coverages and guarantees, in their entirety, will be honoured by the new company.

Following an analysis of the proposed demutualization, it is my opinion that:

The method used for allocating the transformation benefits, that is, the value of the Company, is fair and equitable towards mutual members.

The changes made to the participating and non-participating policy accounts are fair and equitable and will increase the value for mutual members at the time of the transformation.

The assets allocated to the participating policy account under the proposed account changes are, based on forecasts, adequate to meet obligations as well as anticipated dividends or future participations payable to policyholders covered by this account.

The Company’s future financial health and the solvency guarantees given to policyholders will improve with the proposed transformation.

Mutual members will receive a value corresponding to their ownership interests, including fair compensation for the dilution of their voting rights.

Information and Financial Data Used

In order to prepare this report and issue my opinion, I reviewed various documents provided by the management of Industrial-Alliance and I based my analysis on the Company’s current and past operations, without limiting it thereto. In particular, I used the following documents and information:

- data related to the type, number and content of policies;
- the financial statements of Industrial-Alliance and its subsidiaries for 1996, 1997 and 1998, including the statements filed with regulatory authorities regarding capital adequacy;
- management’s analysis of the restructuring of participating and non-participating accounts;
- the 1997 and 1998 reports from the designated actuary on the *Dynamic Capital Adequacy Testing* for Industrial-Alliance and its subsidiaries;
- Industrial-Alliance’s strategic plan for 1996-1998 and the strategic direction of its 1999 action plan;
- review of various formulas for the distribution of the benefits associated with the transformation to mutual members and sample results.

In the absence of Québec legislative documents that set out the terms and conditions for the transformation of a mutual insurance company, I consulted and applied the spirit of federal regulations on the matter. Thus, based on a review of the federal proposal concerning the treatment of participating funds at the time of the transformation, the Industrial-Alliance proposal is in keeping with the objectives outlined in that document. It also respects the other aspects of the federal government's program.

Although I am satisfied as to the consistency of the information provided, such information was not verified. The conclusions reached in this report are therefore based on the accuracy of the data and information obtained, and I have no reason to believe that they are inaccurate.

Eligibility

Transformation into a shareholder-owned company aims to provide mutual members with compensation for their ownership interests. Under the Québec *Act respecting insurance*, all policyholders are mutual members. This is very different from Canadian federal legislation wherein only insureds who hold voting rights are deemed to be the owners of a mutual company, and generally they hold participating policies.

The fact that all policyholders are considered mutual members under the Québec *Act respecting insurance* is in line with several jurisdictions outside Canada.

Eligibility is based on a policyholder's situation on April 30, 1999, a cutoff date determined by the Board of Directors.

Importance of Restructuring Accounts

As part of the transformation process, it is important to structure the accounts so that the value for eligible members is maximized. In the context of a mutual company, it is not necessary to classify contracts strictly on the basis of participating and non-participating accounts since all profits belong to mutual members under Québec legislation and to insureds with voting rights under federal legislation. This is not so with respect to shareholder-owned companies, since shareholders can only divert for their own benefit a portion of the dividends paid to participating policyholders, and this portion varies according to the size of participating accounts. In the context of a shareholder-owned insurance company, there must be a clear distinction between participating and non-participating policy accounts in order to meet the requirements for the portion of the profits from participating policies payable to shareholders, with the balance available to participating policyholders. In the case of shareholder-owned insurance companies, it is therefore important to properly distinguish between participating and non-participating policies.

Industrial-Alliance reviewed its accounts in order to distinguish between the two types of policies and ensure the alignment of the participation commitments and the related accounts. I am satisfied with its approach and the results of the review. The impact of this account realignment will be:

- to respect the rights of both participating and non-participating policyholders;
- to classify as non-participating those policies that do not in actual fact provide for dividend payments based on profits and in fact had not received such dividends;
- to maximize the value of Industrial-Alliance for mutual members.

Moreover, the allocation formula was designed so that participating insureds may receive at least the equivalent of the current participating surplus. The realignment of accounts will definitely benefit Industrial-Alliance's mutual members.

In my opinion, the changes made to the participating and non-participating policy accounts are fair and equitable and will increase the value for mutual members at the time of the transformation.

Analysis of Share Allocation Method

The value of the Company stems primarily from the surplus accumulated over time and from future profits derived from both current and future contracts.

According to analyses of that portion of the value based on the accumulated surpluses or past results, most (over 70%) of the accumulated surpluses are generated from policies that have terminated. As well, the allocation of the value of future profits does not lend itself to a clear division among current mutual members since a large portion thereof is realized through an investment of capital provided by the accumulated surpluses, which themselves result from past terminated policies.

In this context where a large portion of the value is allocated to past generations of insureds, any form of compensation for current insureds is somewhat arbitrary.

A review of various instances of demutualization around the world reveals that there is no single solution for allocating the value among mutual members. Generally speaking, they had no expectations with respect to the transformation when they purchased their policies, and the allocation of shares or a cash amount is therefore a stroke of good fortune for them.

In addition to the issue mentioned previously of the Company's returning 100% of its value to a group which has contributed less than 30%, it is important to keep in mind that there is no practical allocation formula that is perfectly fair and equitable with respect, in particular, to the voluntary or involuntary behaviour of policyholders. Thus a policyholder who dies or who redeems his policy in the month preceding the eligibility date will not be entitled to any portion of the value. Likewise, a policyholder who reduces his insurance coverage prior to the eligibility date or who pays additional premiums before rather than after that date will be entitled to a different value than he would otherwise have received.

Practical constraints must be considered when defining the allocation formula, which should also be relatively simple and easy to understand. The allocation formula can be very complex and difficult to communicate. But even so, it is doubtful that the result would necessarily be fairer or more equitable than any other formula. Industrial-Alliance has therefore developed a formula that takes into account the most relevant criteria pertaining to current policies and allocates the value among mutual members in a fair, equitable, objective, practical, understandable and relatively simple manner.

The allocation of benefits associated with the transformation is divided into two major parts: one fixed component that is linked to the status of a mutual member, and a second component that allocates a member's share of the residual value:

The fixed component is identical for all eligible members since they are, according to legal opinions, equal in terms of voting rights. The number of shares for each mutual member is arbitrary since any changes in the voting rights cannot easily be quantified. Although difficult to quantify, the value of a change in voting rights can be quantified as slight since the mutual member still retains his voting rights, which are altered on a percentage basis, or receives a tangible financial compensation for surrendering what is a fairly diluted voting right. A whole number of shares, namely 5, is being used. This results in the allocation of approximately 10% of the value in this way, a figure that is in line with other instances of demutualization (from 10% to 20%).

After the change in voting rights has been compensated, the allocation is made based on the surpluses accumulated in each area of activity or line of business. The sums to be allocated in relation to the past contributions of each line of business will then be equitable. This variable component of the allocation has been defined to reflect as closely as possible the relative size of the various policies while taking into account certain practical constraints.

Eligible members are therefore entitled to receive the allocation by virtue of their current contract. For certain lines of business, it was not possible to retrace the full history of the policies. In such cases, the allocation was based on the types of policies in force on the eligibility date for the purpose of demutualization.

Unlike federally chartered companies that are governed by a different legislation, the allocation applies to both participating and non-participating policyholders, since all policyholders are mutual members under Québec legislation.

Since participating policyholders were covered by a fund that is separate from the other policies, the formula was designed so that the total allocation to participating insureds would be at least equivalent to the surpluses accumulated from participating policies as of the date of the transformation.

Once the fixed component had been allocated, the variable component was established for each line of business based on the surpluses accumulated by the various lines of business. Financial consistency was also established with respect to the compensation paid on annuity instalment contracts and to the one related to the savings portion of insurance policies that are not locked in.

The allocation formulas proposed by Industrial-Alliance were reviewed in terms of the logic in their approach and, using samples and distribution curves, the results generated for individual mutual members.

Based on the above-mentioned points, it is my opinion that the proposed allocation among the policyholders is fair and equitable.

Impact on Mutual Members

Industrial-Alliance's proposed transformation consists of a change in the Company ownership and in the voting rights of mutual members.

In the context of a mutual company under Québec jurisdiction, all insureds are deemed to be owners of the company and have a right to vote, regardless of the number of insurance policies they hold or are deemed to own and regardless of the types of contracts. Mutual companies are owned on a collective basis, and the rights of mutual members are terminated when the insurance policy is surrendered or expires. The right of ownership cannot be transferred, and mutual members do not receive any payment for this right unless the mutual company is being liquidated. In fact, in the event of a liquidation, it is very unlikely that payments would be made to the mutual members, and if so, for any substantial amount.

Under the proposed transformation, eligible mutual members would receive the monetary value of their ownership interests and have the option to sell it when the shares are subsequently listed on the stock exchange. In comparison with maintaining the corporate framework of a mutual company, this represents a significant improvement in the status of an eligible mutual member.

Voting rights, however, are diluted, in comparison with the current situation. The following table indicates the resulting changes:

Mutual company: 1 voting right per mutual member

Shareholder-owned company: Shareholder 1 voting right per share

Participating insured person: 1 voting right per insured for election of one third of Board

There is a change in the voting rights of a shareholder-owned life insurance company compared with a mutual company. In this regard, the proposed transformation provides for compensation for the voting rights, and this appears reasonable. The voting rights of a group of members as shareholders in the transformed company will be diluted in the event of a public issue of capital.

Impact on Participating and Non-Participating Policyholders

Participating policyholders

At the time of the transformation, a participating policy account for policies issued prior to the transformation will be created. It will include all policies with profit-sharing rights. Liabilities of participating policies will be transferred to this account, with the corresponding assets of course.

Liabilities of participating policies are calculated according to applicable actuarial principles. In this regard, Industrial-Alliance's designated actuary followed the standards issued by the Canadian Institute of Actuaries and took into account all liabilities, namely, mortality, morbidity, interest, lapse rates, expenses and a provision for future profit sharing.

Profit sharing depends on the results, and not all the variables can be forecast accurately. The dividend scale is therefore subject to review over time since dividends cannot be guaranteed. In its transformation proposal, Industrial-Alliance undertakes to respect the principles underlying the participating policy in effect, and this will benefit participating policyholders. Based on a review of the assets and liabilities of the participating policy account prior to the transformation, it is my opinion that the interests of the policyholders are being respected.

Policyholders with non-participating policies

As with participating policies, contractual commitments to policyholders with non-participating policies will be fully respected. Access to capital when needed is an additional asset to protect insureds. I reviewed the report titled *Dynamic Capital Adequacy Testing for the Five-Year Period Ending December 31, 2000* issued by the designated actuary. Even in the unfavourable scenarios, Industrial-Alliance's situation is such that it obviously substantially exceeds the solvency standards. Moreover, based on the various scenarios, the ability to obtain additional capital, although unnecessary, is an asset that further guarantees its solvency and is therefore an advantage for all policyholders, both participating and non-participating alike.

Conclusion

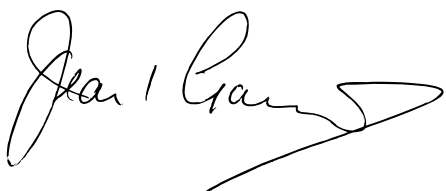
The proposed transformation of Industrial-Alliance into a shareholder-owned company appears to be very opportune and will benefit the mutual members. It will attract capital from outside sources, thereby helping the Company grow in an environment where concentration and agreements between financial institutions are common practice.

As far as the eligible mutual members are concerned, the transformation will allow them to obtain the realizable value of their ownership interests that can grow in the future. By remaining part of a mutual company, members cannot cash in their ownership interests, which in fact belong to the members as a group and are not transferable to individual mutual members, except in the hypothetical event of a liquidation.

The proposed transformation will benefit the eligible mutual members and the policyholders. All policyholders will continue to enjoy the same coverage and added security with respect to solvency standards through the possible addition of capital from external sources.

- The policyholders' benefits, dividends and profit sharing will not be affected by the transformation;
- The proposed allocation of shares among the various groups is equitable and a fair representation of their interests.

Policyholders with participating policies will have access to an account that contains sufficient assets to meet commitments, including profit-sharing expectations. Finally, it is my opinion that the proposed transformation will benefit all parties concerned.

A handwritten signature in black ink, appearing to read "Jean-L. Gauvin", with a stylized flourish at the end.

Jean-L. Gauvin, F.S.A., F.C.I.A.

August 10, 1999



August 10, 1999

The Board of Directors
Industrial-Alliance Life Insurance Company
1080, chemin Saint-Louis
Sillery, Québec G1K 7M3

Members of the Board:

We understand that Industrial-Alliance Life Insurance Company (the “Company”) intends to propose to its members that it be authorized, among other things, to convert from a mutual insurance company to an insurance company with share capital pursuant to the conditions set out in the conversion proposal dated August 10, 1999 (the “conversion proposal”) which appears in the Member Guide of even date (the “Guide”).

Conversion Proposal

Pursuant to the conversion proposal, the Company would convert from a mutual insurance company into an insurance company with share capital the equity ownership of which is represented by common shares and preferred shares (such transaction being hereinafter referred to as the “conversion” and such common shares being hereinafter referred to as the “common shares”). The terms and conditions of the conversion are set forth in the conversion proposal, which we understand to provide, among other things, that: (i) all eligible members will receive common shares or cash in exchange for the change in their voting rights and, where applicable, for their ownership interests; (ii) cash amounts will be paid to eligible members whose last address in the Company’s records is not in Canada (for the purposes hereof, the “cash recipients”) and to eligible members who elect or are deemed to have elected to receive cash; (iii) the cash amount, prior to deduction of any applicable taxes or other amounts, to be paid to each cash recipient will equal the number of common shares attributed to such cash recipient, multiplied by the initial public offering price of the common shares; and (iv) the Company will establish a separate account in respect of its participating policies (the “preconversion participating account”).

The conversion proposal also contemplates that the Company will make an initial public offering (the “initial public offering”) of common shares in order to pay the cash amounts that would be distributed in connection with the conversion, to create an organized market for the trading of the common shares, and possibly to raise additional funds in order to increase the Company’s capital. While the initial public offering is not a condition to the coming into force of the conversion proposal, we have assumed that it will be completed on the effective date of the conversion as discussed herein. We have also assumed that the 3,000,000 outstanding class B non-cumulative preferred securities, series 1 will be converted into preferred shares, series 1 (the “series 1 shares”) as provided in the conversion proposal.

Opinions Requested

In connection with our engagement by the Company, you have asked us, as investment bankers, to provide our opinions, as of August 10, 1999, as to: (i) the IPO market valuation range (as defined below) and certain related matters as set out herein in each case, (ii) whether the cash amounts to be paid to certain eligible members of the Company pursuant to the conversion proposal are appropriate substitutes for the common shares of the Company which such eligible members would otherwise have received; and (iii) whether certain measures described in the conversion proposal are likely to permit the eligible members who receive common shares to sell those common shares, within the two years following the 30-day period after the effective date of the conversion, on a public market.

An opinion is an expression of professional judgment on the issues explicitly addressed. By rendering a professional opinion, we do not become the insurer or guarantor of the expression of professional judgment, of any transaction or of any future performance. In particular, an opinion is not a prediction of future events and the rendering of the opinions set forth below does not guarantee the outcome of the matters opined upon.

You have not asked for and we do not express any view or recommendation as to: (i) which of the Company's members should appropriately be included among the eligible members; (ii) the fairness of the conversion to any individual eligible member or member or to any class of eligible members or members, including any provision of the conversion proposal relating to which eligible members receive common shares or cash or any other provisions of the conversion proposal that distinguish among eligible members; (iii) the adequacy or completeness of the Guide or any other document to be sent or of any other disclosure to be made in connection with the conversion proposal; (iv) any matters relating to the establishment or management of the preconversion participating account; (v) the fairness of the IPO market valuation range, of the price at which the common shares may eventually be offered, of any eventual stock exchange or other public market value of common shares that may be issued by the Company in connection with the conversion proposal or pursuant to any offering or of the fair market value of the common shares to be issued in connection with the conversion proposal or the initial public offering; (vi) the likelihood of consummation of the conversion proposal, of the initial public offering or of any aspect thereof (including the listing of the common shares or the establishment of a liquid and orderly market for the trading thereof); or (vii) how eligible members should vote in connection with the conversion proposal, whether or not they should make an election to receive cash in lieu of common shares or to buy or sell their common shares or the price that an eligible member might receive in respect of the sale of common shares at any time after the conversion or the initial public offering.

Defined Terms

Terms used and not defined herein shall have the meanings ascribed to them in the conversion proposal. For the purposes hereof, the following terms have the meanings set forth below: (i) "IPO market valuation range" means a range of estimated equity market values for the common shares of the Company based solely on estimated prices at which the common shares could be expected to have been offered as of August 10, 1999 in connection with the initial public offering, assuming, among other things, that the initial public offering would result in a distribution large enough to ensure adequate market liquidity; (ii) "initial public offering date" means the date on which the Company and its underwriters determine the price at which the common shares will be initially offered to the public; and (iii) "initial public offering price" means the price at which the common shares will initially be offered to the public as determined by the Company and its underwriters based on the market conditions on the initial public offering date.

The term "appropriate substitutes" is not defined in the *Insurance Act* (Quebec) (the "Act"), and we are not aware of any established meaning for such term in a valuation context. Accordingly, as similarly proposed in connection with certain other conversion proposals which have been or are in the course of being completed in Canada, for the purposes hereof we have assumed that the term "appropriate substitutes" means that the cash amounts to be paid to cash recipients in lieu of common shares are equal, at the time of the determination of the initial public offering price of the common shares, to the cash value of such common shares, determined solely by reference to the initial public offering price of the common shares. We believe that this assumption is not unreasonable, in the context of the conversion proposal and the discussion of the conversion proposal in the Guide, in respect of the cash recipients.

Reviews and Assumptions

For the purposes hereof, we have, among other things: (i) reviewed the Company's consolidated audited financial statements for the years 1994 through 1998 and its internal business plan for 1999; (ii) analyzed certain consolidated financial projections for the Company prepared by the Company's management which give effect to the conversion; (iii) reviewed the Guide, including the conversion proposal and the schedules thereto, and certain related documents; (iv) reviewed the Report of the Appointed Actuary and the Report of the Independent Actuary; (v) compared the consolidated financial results of the Company to the financial results of certain other companies (based on the publicly available information of such other companies); (vi) analyzed the initial public offering prices and market trading data for certain other companies the securities of which are publicly traded (we note that no company used for purposes of this comparative analysis is directly comparable to the Company in all respects); (vii) compared certain financial terms of the transactions contemplated by the conversion proposal and the schedules thereto with certain financial terms of other transactions, in all cases which we deemed to be relevant; (viii) conducted discussions with management and advisors of the Company with respect to certain matters we deemed relevant, including the historical and projected consolidated operating results of the Company and certain financial and other aspects of the conversion proposal and the conversion; and (ix) made such other financial analysis and investigations as we deemed appropriate.

We have assumed and relied upon, without independent verification (or assuming any responsibility for any such verification), the accuracy and completeness of all financial, tax and other information provided to us or otherwise

made available by the Company, its advisors or its representatives or otherwise discussed with or reviewed by or for us (including from public sources), and we have assumed that there has been no change therein since the date thereof. We have assumed that any such financial information relating to the Company presents fairly its financial position and results of operations for the periods set forth therein, and where relevant reflects the best estimations and valuations of management of the Company as to its future financial results.

The opinions expressed herein are based on market, economic and other conditions as they exist and can be evaluated, on certain assumptions and limitations underlying the methodologies used, and on the information made available to us, as of August 10, 1999. We have also assumed that: (i) the conversion will be completed, and An Act respecting conversion will be enacted, in accordance with all applicable legal and regulatory requirements and the terms and conditions contained in the conversion proposal and the Guide and in the manner described herein, without amendment; (ii) the initial public offering will be made through the issuance of common shares from treasury, will be made in Canada through underwriters selected by the Company's Board of Directors, will be priced according to an assessment of the market price for the common shares by the underwriters and the Company's Board of Directors, will be completed on the effective date of the conversion in accordance with the terms and conditions contained or assumed in the conversion proposal and the Guide and in the manner described therein, without amendment, and will be sufficiently large relative to the total number of common shares outstanding following the conversion to provide an adequate level of trading volume on a daily basis; (iii) the common shares will be listed and posted for trading on The Toronto Stock Exchange and, if applicable, The Montreal Exchange no later than the effective date of the conversion; (iv) the common shares will remain listed and eligible for trading on the foregoing exchanges indefinitely in the future; (v) the Company will remain a reporting issuer in good standing (or maintain equivalent status in other relevant jurisdictions) so as to permit the common shares to trade without restriction in Canada; (vi) no legal, tax or regulatory changes will occur that would have a material impact upon the business, operations, financial condition or prospects of the Company on a consolidated basis; (vii) the Company's consolidated financial results will be in accordance with the projections which have been provided to us; and (viii) the Company has made arrangements with Montreal Trust Company to establish a service to assist eligible members who have received common shares to sell such common shares through a registered broker, such service to be available starting 30 days after the conversion and continuing for at least two years, after which the Company may discontinue offering this service at any time after making an announcement to that effect.

We have assumed that there will be no new equity capital raised by the Company in excess of the cash amounts to be distributed to eligible members who are to receive cash, except for any capital raised through the issuance of common shares upon exercise of any over-allotment option granted to the underwriters of the initial public offering. The opinions provided herein do not reflect the exercise of any over-allotment option granted to the underwriters of the initial public offering.

Certain Additional Limitations, Observations and Qualifications

The valuation of non-publicly traded securities and the preliminary estimation of initial public offering price ranges for such securities are inherently imprecise and subject to numerous uncertainties and contingencies, all of which are difficult to predict and beyond our control. We have provided herein our views on the range of estimated prices at which the common shares could have been offered as of August 10, 1999 in connection with the initial public offering, but we express no view and make no representation or warranty as to the price at which the common shares will actually be offered or sold in connection therewith or will trade in the secondary market following such offering.

We note that the actual initial offering price could materially differ from the IPO market valuation range provided in this letter. In connection with an actual initial public offering, market information, including information relating to demand and pricing levels, is often solicited and received by the lead managers from prospective investors, and this information may be material to the determination of the offering price range. Such information also may lead to revision of the price range during the marketing period. We note for the purposes hereof that it has not been possible at this time to undertake a typical marketing process with respect to the common shares (which would only take place in the period prior to the conversion) and such information is therefore not available. In addition, any such price would be determined through negotiations between the Company and the underwriters of such initial public offering, and no such negotiations have been undertaken as of yet. Furthermore, we note that customarily in initial public offerings, the offering price of common shares reflects a discount (which may be material) from the full trading value of such shares, once they are entirely distributed. Accordingly, our experience with large distributions of equity securities leads us to believe that an offering and sale of the common shares would require a discount from the expected full trading value of

such shares, once they are entirely distributed. The amount of such discount would be based on various factors, including the absolute size of the offering, the size of the offering relative to the overall capitalization of the Company, the Company's consolidated results and expectations with respect thereto, marketing considerations, timing considerations and general market conditions.

The price at which the common shares will actually be offered or sold in connection with an initial public offering will depend upon, among other things, the following factors which will be evaluated around the time of the initial public offering: (i) historical and projected consolidated operating results and financial position of the Company; (ii) the history of, and the prospects for, the Company and the industry in which it competes; (iii) the overall legislative and regulatory framework applicable to the Company and to other financial institutions; (iv) an assessment of the Company's management, management compensation and other incentives; (v) the Company's past and present business operations; (vi) the prospects for, and timing of, future consolidated revenues and earnings of the Company; (vii) the anticipated dividend rate and yield of the Company's shares; (viii) the geographic focus of the Company's operations; (ix) the range of the Company's products and services, and its channels of distribution for such products and services; (x) the Company's capital structure, return on equity and earnings growth rate; (xi) the relation between all of the factors described above and the market value and various valuation measures of other companies engaged in activities similar to the Company; and (xii) prevailing economic and equity market conditions and expectations with respect thereto, including the number and size of the equity financings and initial public offerings that may be completed around the initial public offering date and the length of time during which eligible members retain shares.

The market trading prices of the common shares during or following the initial public offering may be greater or less than the initial offering price. We do not express any view concerning, nor do our opinions herein take into account, the possibility or the extent, if any, that the common shares may trade in the secondary markets on or after the initial public offering date at prices which are lower or greater than the initial offering price (which discrepancy may be material). Subsequent changes in economic and market conditions and other events and developments, including changes in the foregoing factors after August 10, 1999, the completion of the initial public offering and trading activity in the common shares following such completion, may have a material effect on the prices at which the common shares may initially be offered and sold to the public and subsequently trade or on the market value of the Company's common shares.

We are not accountants and have relied upon the Company and the reports of Samson Bélair/Deloitte & Touche for the accuracy and completeness of the financial statements of the Company and its subsidiaries as well as to certain accounting issues on the treatment of the Company's series 1 shares and other series of preferred shares. We have been advised that the Company has retained the services of Mr. Jean-Louis Gauvin at Ernst & Young, independent consulting actuary, to opine on the method used for the allocation of the conversion benefits to the eligible members under the conversion proposal and on certain other matters relating to the conversion. We are not actuaries and have relied upon the Company, the report of the appointed actuary and the report of the independent actuary, as reproduced in the Guide, for all actuarial information. Our services do not include any actuarial determinations or evaluations, nor did we make any attempt to evaluate actuarial assumptions. Finally, we are not tax or legal experts and have relied on the Company with respect to certain tax and legal matters, including certain tax and legal consequences of the conversion for the Company, and on the opinion of the Company's counsel, McCarthy Tétrault, with respect to the tax consequences of the conversion for eligible members.

We have not made an independent evaluation of the assets and liabilities of the Company or any of its subsidiaries and we have not been furnished with any such evaluation.

We note that we do not know the circumstances of members and are not in a position to advise any of them. Accordingly, similarly to opinions rendered in connection with certain other conversion proposals which have been or are in the course of being completed in Canada, in providing the views set forth herein, we have not accounted for, or taken into consideration, any tax or other consequences for eligible members arising from the distribution of cash. It would be inappropriate for eligible members to rely on our opinions in making their determinations with respect to receiving cash or receiving common shares or to conclude, on the basis of the views set forth herein, or without consulting their own advisors, that a cash amount is an appropriate substitute for common shares in their own circumstances. We also note that eligible members receiving cash instead of common shares will not receive any dividends paid on the common shares that they would otherwise have been entitled to receive. Finally, our opinion in paragraph 2 below is not intended to be and should not be read as an opinion that the cash amounts received by cash recipients and the common shares are appropriate substitutes at any time other than the time when the initial offering

price is established on the initial public offering date or that such amount would be sufficient to enable such a person to purchase common shares in the market at any time whether before, upon or after the effective date of the conversion.

Financial Advice and Other Activities

The Company has retained Nesbitt Burns Inc. to act as financial advisor in respect of the conversion. In the past, we, directly or through affiliates, have provided financial advisory and financing services to the Company and have received fees for rendering these services. Please note that we are a full-service securities firm engaged in securities trading and brokerage activities, as well as in providing investment banking, financing and financial advisory services. In the ordinary course of our activities, we or our affiliates may at any time hold long or short positions and trade or otherwise effect transactions, for our own or our clients' account, in securities of the Company. Nesbitt Burns Inc., as lead manager of a syndicate of underwriters, expects to enter into a definitive underwriting agreement providing for, upon the terms set forth therein, the issuance and sale by the Company of the common shares in connection with the initial public offering.

Opinions

Based upon and subject to the assumptions, limitations, observations and qualifications set forth herein, and upon such other matters as we consider relevant, it is our opinion, as investment bankers, that, as of August 10, 1999:

1. (a) the IPO market valuation range is approximately \$510 million to \$765 million, (b) assuming that 35 million common shares are outstanding, the implied IPO market valuation range per common share is approximately \$14.55 to \$21.85 per share, (c) the IPO market valuation range reasonably reflects prevailing market conditions and (d) the methods and assumptions used to estimate the IPO market valuation range are appropriate;
2. as the cash amount calculated on the initial public offering date to be paid to the cash recipients under the conversion proposal in lieu of a common share will be equal to the initial offering price of a common share, as established on the initial public offering date, the cash amounts paid to the cash recipients under the conversion proposal are appropriate substitutes (within the meaning herein ascribed thereto) for the common shares which the cash recipients would otherwise have received; and
3. the measures to be taken by the Company, including those described in the conversion proposal, are likely to permit the eligible members who receive common shares to sell such common shares, within the two years following the 30-day period after the effective date of conversion, on a public market.

Use of Opinions

Our opinions expressed herein are provided to the board of directors of the Company in connection with the conversion proposal and, without our prior written consent, such opinions may not be quoted, summarized, paraphrased, excerpted or referred to, in whole or in part, in any registration statement, prospectus, member guide or proxy statement, or in any other report, document, release or other written or oral communication prepared, issued or transmitted by the Company, provided that a copy of this letter or a summary thereof may be included in the Guide with our consent. We assume no obligation to update, revise, reaffirm or withdraw the opinions expressed herein as a result of any events or developments subsequent to August 10, 1999 or for any other reason.

Yours truly,

Nesbitt Burns Inc.

NESBITT BURNS INC.

Canadian Federal and Québec Tax Considerations

In the opinion of McCarthy Tétrault, counsel to Industrial-Alliance, the following summary fairly presents the principal Canadian federal and Québec tax considerations pursuant to the *Income Tax Act* (Canada) (the “Tax Act”) and the *Taxation Act* (Québec) (the “Taxation Act”) generally applicable to certain eligible members, as indicated hereinafter, with respect to the exchange of their ownership interests in Industrial-Alliance and changes in their voting rights in Industrial-Alliance in return for Industrial-Alliance common shares or a cash amount from Industrial-Alliance pursuant to the transactions described in this document.

This summary is based on the current provisions of the Tax Act and the Taxation Act and their respective regulations (the “Regulations”) in force on the date hereof, the administrative policies published by Revenue Canada and by the Ministère du Revenu du Québec, and all the specific proposals (the “Tax Proposals”) to modify the Tax Act and the Taxation Act and the Regulations announced publicly by the Minister of Finance (Canada) or the Minister of Finance of Québec prior to the date hereof. More particularly, this summary takes into account the draft legislation on the tax consequences of demutualization released on December 15, 1998 as it is proposed to be amended pursuant to a letter from the Department of Finance Canada dated February 8, 1999, and the decision of the Minister of Finance of Québec, as announced in his Budget speech of March 9, 1999, to amend the Taxation Act to integrate therein, while adapting them to its general principles, most of the federal measures proposed in the draft legislation (the “Harmonization Proposal”). This summary is not exhaustive of all the possible Canadian federal and Québec tax considerations and, except for the Tax Proposals and the Harmonization Proposal, does not take into account or anticipate any change in law, whether by legislative, governmental or judicial action, nor does it take into account territorial or foreign tax considerations which could differ significantly from those presented herein. No assurance can be given that the Tax Proposals and the Harmonization Proposal will be adopted in the form proposed. If the Tax Proposals or the Harmonization Proposal are not adopted as proposed, the Canadian federal tax considerations and the Québec tax considerations described below could be substantially different. Unless otherwise indicated in this summary, the Québec tax considerations are identical to the Canadian federal tax considerations described hereinafter.

This summary is of a general nature only and is not intended to be, nor should it be construed as, legal or tax advice for any eligible member. Therefore, eligible members, and especially those to whom this summary does not apply, should consult their tax advisor with respect to the tax considerations applicable to them.

Eligible Members Resident in Canada

Eligible members who receive common shares from Industrial-Alliance.

This portion of the summary is applicable to eligible members who, for purposes of the Tax Act and the Taxation Act and, at all relevant times, are resident in Canada and/or Québec, receive Industrial-Alliance common shares in exchange for their ownership interests in Industrial-Alliance and changes in their voting rights in Industrial-Alliance (the “Shares”), hold their Shares as capital property, and deal at arm’s length with Industrial-Alliance (each, a “Resident Member”). The Shares will generally be considered capital property for a Resident Member unless the Resident Member holds the Shares in the course of carrying on a business of trading or dealing in securities or otherwise as part of a business of buying and selling securities, or the Resident Member has acquired the Shares in one or more transactions considered to be an adventure in the nature of trade, or the Resident Member is a “financial institution” and the Shares are “mark-to-market” property of such financial institution. Certain Resident Members whose Shares would not constitute capital property may have their Shares treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act and Article 250.1 of the Taxation Act.

(a) Exchange of ownership interests and changes in voting rights

The income, loss, capital gain, or capital loss of a Resident Member resulting from the exchange of his ownership interests and the changes in his voting rights is deemed to be nil. Given that the consideration paid by the Resident Member for his Shares includes the assignment of his ownership interests and changes in his voting rights, the adjusted cost base of the Shares for the Resident Member will be deemed to be nil. Based on the Harmonization Proposal, the Québec tax considerations for Resident Members in respect of the exchange of their ownership interests and the changes in their voting rights will be as described hereinabove.

(b) Ownership and Disposition of Shares

Dividends Received on the Shares

The dividends received and the dividends deemed to be received on the Shares will be included in the income of the Resident Member under the Tax Act and the Taxation Act. In addition, individuals and certain trusts will generally be required to include in their income a “gross-up” equal to $\frac{1}{4}$ of the amount of such dividends, and will be entitled, in calculating the amount of tax payable, to a dividend tax credit equal to $\frac{2}{3}$ of the amount of such “gross-up”. Pursuant to the Taxation Act, the tax credit applicable to dividends received or deemed to have been received on or after January 1, 2000 will equal 54.15% of the amount of this “gross-up”. A corporation which is a Resident Member will include such dividends in the calculation of its income and will generally be allowed to deduct the amount of such dividends in calculating its taxable income. A Resident Member that is a “private corporation” within the meaning of the Tax Act, and any other corporation resident in Canada and controlled by an individual or a group of individuals or for their benefit, may be required to pay, pursuant to Part IV of the Tax Act, a refundable tax equal to $\frac{1}{3}$ of the dividends received or deemed to have been received on the Shares to the extent such dividends are deductible in computing such Resident Member’s taxable income. The Taxation Act does not provide for any such refundable tax on dividends.

Disposition of Shares

Upon the disposition or the deemed disposition of Industrial-Alliance Shares, the Resident Member will realize a capital gain (or incur a capital loss) equal to the amount by which the proceeds of disposition exceed (or are less than) the sum of the adjusted cost base to the Resident Member of his Industrial-Alliance Shares and reasonable costs of disposition. The tax treatment of such capital gain (or such capital loss) will generally be as described under the heading “Capital Gains and Capital Losses”. As indicated above under the heading “Exchange of ownership interests and changes in voting rights”, the adjusted cost base of Industrial-Alliance Shares received will be deemed to be nil. If the Resident Member acquires other Industrial-Alliance Shares, the adjusted cost base of each Industrial-Alliance Share will be the average of the adjusted cost base of all of such Resident Member’s Industrial-Alliance Shares.

Capital Gains and Capital Losses

Upon the disposition or the deemed disposition of Industrial-Alliance Shares, the Resident Member will be required to include $\frac{3}{4}$ of the amount of any resulting capital gain (a “taxable capital gain”) in such Resident Member’s income and will be authorized to deduct $\frac{3}{4}$ of the amount of any resulting capital loss (an “allowable capital loss”) from the taxable capital gains realized in the year of disposition. Allowable capital losses not deducted in the taxation year in which they were incurred may be carried back to any of the preceding three years or carried forward to any subsequent year and deducted from the taxable capital gains realized in such years, to the extent and under the circumstances set out in the Tax Act. A capital loss otherwise arising upon the disposition of an Industrial-Alliance Share may be reduced by the dividends previously received or deemed to have been received thereon, to the extent and under the circumstances set out in the Tax Act.

Capital gains realized by an individual and by certain trusts may give rise to a liability for alternative minimum tax. In the case of a Canadian-controlled private corporation, the Tax Act also adds to the amount of tax otherwise payable a refundable tax of $6\frac{2}{3}\%$ on investment income (other than dividends deductible in computing the corporation’s taxable income). For this purpose, investment income includes taxable capital gains. The Taxation Act does not provide for any refundable tax on investment income.

Eligible Members Who Receive a Cash Amount

This portion of the summary is applicable to eligible members who, for purposes of the Tax Act and the Taxation Act and at all relevant times, are resident in Canada and/or Québec, receive a cash amount in exchange for their ownership interests and changes in their voting rights in Industrial-Alliance and deal at arm’s length with Industrial-Alliance (each one, a “Resident Beneficiary”).

The income, loss, capital gain or capital loss of a Resident Beneficiary resulting from the exchange of his ownership interests and changes in his voting rights is deemed to be nil. However, the cash amount received by a Resident Beneficiary will be deemed to be a dividend under the Tax Act and the Taxation Act and will be included in the income of the Resident Beneficiary for the year in which it is received. In addition, individuals and certain trusts will generally be required to include in their income a “gross-up” equal to $\frac{1}{4}$ of the amount of such dividends, and will be entitled, in calculating the amount of tax payable, to a dividend tax credit equal to $\frac{2}{3}$ of the amount of such “gross-up”. Pursuant

to the Taxation Act, the tax credit applicable to dividends received or deemed to have been received on or after January 1, 2000 will be equal to 54.15% of the amount of this “gross-up”. A corporation which is a Resident Beneficiary will include such dividends in the calculation of its income and will generally be allowed to deduct the amount of such dividends in calculating its taxable income. A Resident Beneficiary that is a “private corporation” within the meaning of the Tax Act, and any other corporation resident in Canada and controlled by an individual or a group of individuals or for their benefit, may be required to pay, pursuant to Part IV of the Tax Act, a refundable tax equal to $\frac{1}{3}$ of such amounts to the extent such dividend is deductible in computing the taxable income of the Resident Beneficiary. The Taxation Act does not provide for any such refundable tax on dividends.

Eligible Members Not Resident in Canada

This portion of the summary is applicable to eligible members who, for purposes of the Tax Act and any applicable tax treaty, are not resident or deemed to be resident in Canada, deal at arm’s length with Industrial-Alliance, receive a cash amount in exchange for their ownership interests in Industrial-Alliance and changes in their voting rights in Industrial-Alliance, and do not use or hold, and are not deemed to use or hold, their ownership interests and their voting rights in the course of carrying on business in Canada (each, a “Non-resident Beneficiary”).

The cash amount received by a Non-resident Beneficiary will be deemed to be a dividend and will be subject to a 25% non-resident withholding tax pursuant to the Tax Act, subject to reduction or any other tax relief offered pursuant to the provisions of an applicable tax treaty. The Taxation Act does not provide for any such non-resident withholding tax under the circumstances.

Group Insurance Policies Paid by Employees

When an eligible member is an employer or another promoter of a group insurance policy pursuant to which individuals have been insured in the course of their employment or because of their employment, and the full cost of a particular coverage under the policy has been borne by such individuals and (i) the eligible member receives Shares or a cash amount in exchange for its ownership interests and changes in its voting rights; (ii) the eligible member pays a premium under the terms of the policy for the particular coverage; and (iii) the purpose of the premium is to apply all or part of the fair market value of the Shares or the cash amount for the benefit of the individuals benefiting from the particular coverage, pursuant to the Tax Act, the premium shall be deemed to be an amount paid by the employees and no amount may be deducted in calculating the eligible member’s income in respect of such premium. However, the tax rules described above will continue to be applicable to the eligible member upon receipt of the Shares or the cash amount.

Eligibility for Investment

In the opinion of McCarthy Tétrault, Industrial-Alliance common shares will be, at the date of issue, eligible investments, without resort to the so-called “basket provisions”, and their purchase would not be prohibited, in each case subject to the general investment provisions and, in certain cases, subject to prudent investment requirements and to additional requirements relating to investment or lending policies or goals, under or by the following statutes:

Insurance Companies Act (Canada)

Trust and Loan Companies Act (Canada)

Pension Benefits Standards Act, 1985 (Canada)

Loan and Trust Corporations Act (Ontario)

Pension Benefits Act (Ontario)

Supplemental Pension Plans Act (Québec)

An Act respecting Insurance (Québec) for insurers other than a guarantee fund corporation

An Act respecting trust companies and savings companies (Québec) for a trust company investing its own funds and deposits it receives and a savings company investing its own funds

Loan and Trust Corporations Act (Alberta)

Insurance Act (Alberta)

Financial Institutions Act (British Columbia)

In the opinion of McCarthy Tétrault, Industrial-Alliance common shares will be, at the date of issue, qualified investments under the *Income Tax Act (Canada)* for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans, and deferred profit sharing plans.

Auditors' Report on the Mutualist File

To the Directors of
Industrial-Alliance Life
Insurance Company

We have audited the file of the eligible members (mutualists) of Industrial-Alliance Life Insurance Company as at April 30, 1999. The file of mutualists has been prepared in accordance with the eligibility rules set out in the conversion proposal. The mutualist file is used as the basis for calculating the number of shares which will be allocated to each eligible member in the context of the conversion of the mutual company into a stock company, based on share allocation formulas approved by the board of directors of Industrial-Alliance. We have also audited the procedures implemented by the Company with respect to the distribution by mail of this information to the mutualists and to the trustees responsible for supervising the vote on the proposal to convert Industrial-Alliance into a stock company. This information is the responsibility of Industrial-Alliance Life Insurance Company management. Our responsibility is to express an opinion on the information contained in the mutualist file and on the reliability of the controls established for the distribution of this information to the mutualists and the trustees.

Our audit leads us to believe that the file has been prepared using written and electronic data normally used in the course of the activities of Industrial-Alliance, and that the recording of the data on computer media has been performed by Industrial-Alliance systematically and without apparent deficiencies in the normal course of business and with the normal safeguards against alterations.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform our audit to obtain reasonable assurance whether the information in the mutualist file is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the mutualist file. An audit also includes procedures to validate the reliability of the controls in place.

In our opinion, the mutualist file presents fairly, in all material respects, the list of mutualists as at April 30, 1999 as well as the number of shares allocated to each eligible mutualist in accordance with the eligibility rules and the share allocation formulas approved by the board of directors of Industrial-Alliance Life Insurance Company and appearing in the conversion proposal provided in Chapter 7 of the *Member Guide* of August 10, 1999. In addition, the control procedures used by Management for the distribution of the information to the eligible mutualists and the trustees provide reasonable, but not absolute, reliability of the controls applied in the mailing process.



Samson Bélair/Deloitte & Touche, S.E.N.C.
Chartered Accountants

August 10, 1999

Industrial-Alliance

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Summary of Chapter 9

The following summary is qualified by the more detailed information and financial statements, including the notes thereto, appearing elsewhere in this Chapter 9. Defined terms have the respective meanings ascribed to them elsewhere in this Member Guide.

The Company

Industrial-Alliance either directly or through its subsidiaries offers a wide range of life and health insurance, savings and investments, general insurance, segregated funds products and other financial services. The Company operates throughout Canada and western United States. In terms of general funds assets, the Company ranks seventh in Canada among life insurance companies according to the magazine *Canadian Insurance* (1999 Annual Review of Statistics) and taking into account the recent merger of two competitors. The head office of Industrial-Alliance is located at 1080 Chemin Saint-Louis, Sillery, Québec, G1K 7M3.

Industrial-Alliance offers directly or through two of its subsidiaries, a wide array of life and health insurance products. Industrial-Alliance and North West of Canada (recently combined with Seaboard) distribute the same product line but in different regions — primarily in Québec, Ontario and the Atlantic Provinces in the case of Industrial-Alliance and in the western provinces in the case of North West of Canada. National Life focuses on targeted market segments and distributes its own product line throughout Canada.

From 1994 to 1998, the Company realized an average annual growth in premiums of 13.2%, (16.7% with Seaboard's premiums for 1998) as compared with 5.5% for the industry as a whole. During this period, each business line of the Company outpaced the industry in terms of sales growth. In the first six months of 1999, the Company ranked first in Canada for sales of individual life insurance. As of December 31, 1998, the Company ranked fourth in Canada in terms of amounts of life insurance in force (including Seaboard's policies). The Company achieved a higher profit than the average for the industry with an average return of 14% on policyowners' equity for the past three years.

The Company competes in four insurance and annuity business lines — individual insurance, individual annuities, group insurance and group annuities. Each of these business lines was profitable during the period between 1994 and 1998.

In Canada, the Company currently has over 1.5 million individual clients, including the employees of some 7,500 institutional clients and businesses. The Company has one of the largest insurance products distribution networks in Canada. As of June 30, 1999, the network comprised some 1,219 exclusive agents, 11,087 brokers and 570 life and health insurance specialists employed by investment dealers, the national accounts network.

In 1998, 51% of the Company's premiums were generated from the individual insurance and annuities business lines, 46% from the group insurance and group annuities business lines and 3% from other sources.

For the six-month period ended June 30, 1999, 13.9% of total premiums originated from the western provinces, 39.7% from Ontario, 37.0% from Québec, 7.4% from the Atlantic Provinces and 2.0% from outside Canada.

Recent Acquisition

In January 1999, the Company acquired, for \$201 million in cash, the Canadian operations of Seaboard Life Insurance Company ("Seaboard"), an insurance company founded in 1953 and based in Vancouver. As part of that transaction, Industrial-Alliance also acquired a subordinated debenture issued by Seaboard and held by the seller in the amount of \$55 million. Seaboard offers individual insurance products as well as credit insurance offered by automobile dealers, and specializes in group insurance for special markets. As of December 31, 1998, Seaboard had assets under management of approximately \$1.5 billion, 320 employees and a network of some 1,800 brokers. Seaboard's operations have been combined with those of Northwest of Canada, thus enabling the Company to expand its distribution networks and its product line in the western provinces, where most of Seaboard's operations are concentrated. The Company anticipates a reduction of some \$6 million in Seaboard's annual administrative costs, and expects half of those reductions to be achieved in 1999.

Overview of the Conversion Proposal

On June 1, 1999, Industrial-Alliance announced its intention to proceed with the conversion of the Company into a share capital insurance company. If the conversion proposal is approved, conversion will take effect on the date of the letters patent of conversion in accordance with *An Act respecting conversion*. On the effective date of conversion, the following events will take place: (i) Industrial-Alliance will be converted into a share capital insurance company; (ii) eligible members will be entitled to receive conversion benefits in exchange for their member interests; (iii) the Industrial-Alliance participating account will be restructured in accordance with the conversion proposal; and (iv) outstanding preferred securities will be converted into preferred shares. Industrial-Alliance plans to enter into an underwriting agreement pursuant to which its common shares will be offered, subject to certain conditions set by a syndicate of underwriters in an IPO.

Stock Exchange Listings

There is currently no market for common shares of Industrial-Alliance. However, The Toronto Stock Exchange and The Montreal Exchange have conditionally approved the listing of the common shares, subject to the fulfilling of all of the requirements of such exchanges.

Risk Factors

In addition to the information provided in this Chapter 9, eligible members should consider certain material factors which may affect an investment in the common shares of Industrial-Alliance, including: (i) factors affecting the insurance industry as a whole; (ii) the fluctuation in the price of Industrial-Alliance common shares; (iii) the offering of Industrial-Alliance common shares; (iv) the demand for Industrial-Alliance common shares; (v) the sensitivity to interest rates; (vi) the competition; (vii) the return on the investment portfolio; (viii) the fluctuation in claims; (ix) the provisions for future benefits; (x) regulatory and tax environment; (xi) the risks relating to anti-takeover regulation; (xii) access to the assets of subsidiaries; (xiii) the rating agencies; (xiv) the impact of the year 2000; and (xv) the participating account. See “Risk Factors”.

Selected Consolidated Financial Information

The table below provides selected consolidated financial information for each of the periods indicated. This information must be read along with the Company's financial statements included elsewhere in Chapter 9. The table below has not been restated to take into account the effect of the conversion.

	As at and for the six months ended June 30		As at and for the years ended December 31				
	1999	1998	1998	1997	1996	1995	1994
	(unaudited)						
	(in millions of dollars, unless otherwise indicated)						
Operating results							
Premiums	1,069.2	992.9	1,788.2	1,643.9	1,133.1	1,145.0	1,089.7
Investment income	342.7	291.0	597.0	586.8	587.7	579.2	548.5
Fees and other	31.4	23.0	49.1	35.1	26.7	16.8	16.2
Total	1,443.3	1,306.9	2,434.3	2,265.8	1,747.5	1,741.0	1,654.4
Cost of commitments to policyowners . .	830.6	661.9	1,347.2	1,142.9	1,069.7	1,245.1	1,087.6
Net transfer to segregated funds	318.2	424.0	637.1	712.9	304.0	154.1	236.3
Commissions, general and other expenses	226.8	160.2	324.8	304.4	268.1	247.4	242.2
Net income before income, taxes and dividends to policyowners	75.0	60.8	125.2	105.6	105.6	94.4	92.0
Net income	39.7	30.8	69.7	65.4	59.9	51.5	51.1
Balance Sheet Data							
General fund assets	9,349.4	7,810.1	8,085.3	7,600.1	7,461.9	7,030.6	6,676.1
Actuarial liabilities	7,771.6	6,583.1	6,777.8	6,555.3	6,566.5	6,326.3	6,053.5
Subordinated debentures	185.0	110.0	110.0	110.0	110.0	60.0	60.0
Preferred equity securities	75.0	—	—	—	—	—	—
Policyowners' equity	618.5	539.7	583.2	506.5	438.9	361.1	311.6
Other Data							
Funds under management							
General fund assets	9,349.4	7,810.1	8,085.3	7,600.1	7,461.9	7,030.6	6,676.1
Segregated funds assets	3,147.1	2,534.0	2,540.6	2,044.9	1,207.5	778.1	546.6
Total	12,496.5	10,344.1	10,625.9	9,645.0	8,669.4	7,808.7	7,222.7
Premiums (life and health insurance)							
Individual life insurance	261.4	200.4	416.3	372.6	344.5	315.1	307.0
Individual annuities	277.1	328.8	502.6	523.7	298.1	260.1	335.2
Group insurance (including ASO contracts)	170.6	110.4	233.5	212.6	218.0	207.5	202.7
Group annuities	347.8	340.7	609.6	504.0	234.4	331.8	220.2
Return on policyowners' equity	13.36%	11.94%	13.02%	14.04%	14.86%	15.61%	18.35%

Introduction

This chapter of the *Member Guide* contains detailed information on the activities of Industrial-Alliance and its subsidiaries. It also contains the same kind of financial information as provided to investors in connection with an IPO. The information contained in this chapter is of particular importance in helping you to decide whether you prefer to receive common shares — and therefore become a shareholder of Industrial-Alliance — or a cash amount.

In this chapter, the “Company” means Industrial-Alliance and its subsidiaries. Unless otherwise indicated, the Company’s financial information included in this chapter is presented in a consolidated form and on an historical basis. References to “pro forma” financial information in this chapter indicate that adjustments have been made to reflect the conversion of Industrial-Alliance to a share capital company and the acquisition of Seaboard as if the acquisition had been made on January 1, 1998. For further information, see the financial statements contained in this chapter under the heading *Financial Information*.

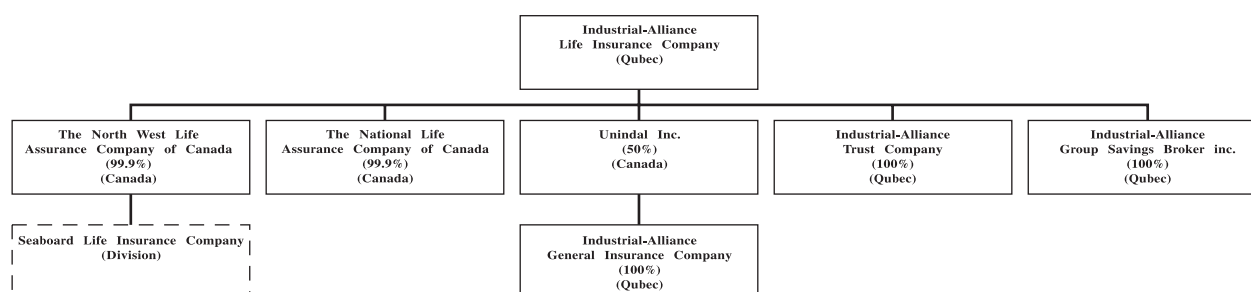
The Company

Industrial-Alliance, either directly or through its subsidiaries, offers a wide range of life and health insurance, savings and investment products, general insurance, segregated funds products and other financial services. The Company operates throughout Canada and western United States. In terms of general fund assets, the Company ranks seventh in Canada among life insurance companies according to the magazine *Canadian Insurance* (1999 Annual Review of Statistics) and taking into account the recent merger of two competitors. The head office of Industrial-Alliance is located at 1080 Chemin Saint-Louis, Sillery, Québec, G1K 7M3.

Industrial-Alliance is a mutual life and health insurance company incorporated under *An Act respecting insurance* (Québec). Industrial-Alliance results from several amalgamations, namely the 1987 amalgamation of Industrial Life Insurance Company, founded in 1905, and Alliance Mutual Life Insurance Company, founded in 1892, and the 1996 amalgamation with The Solidarity Life Insurance Company. In January 1999, The North West Life Assurance Company of Canada (“North West of Canada”), a subsidiary of Industrial-Alliance, acquired Seaboard.

As of June 30, 1999, the Company had 2,023 employees. Employees are not covered by a collective agreement, and management considers that its relations with employees are good.

The following organizational chart presents Industrial-Alliance and its principal subsidiaries, the percentage of voting securities held and the jurisdiction of incorporation of each subsidiary.



Industrial-Alliance’s principal subsidiaries are described below:

- North West of Canada, the head office of which is located in Vancouver, was acquired in 1982. It operates both in Canada and the United States. Its Canadian operations are fully integrated with those of Industrial-Alliance. North West of Canada’s products are sold mainly in the western provinces and in Ontario. In the United States, its activities focus on certain targeted markets in western United States. North West of Canada is currently integrating the operations of Seaboard, which was acquired in January 1999.
- The National Life Assurance Company of Canada (“National Life”), the head office of which is located in Toronto, was acquired in 1988. National Life offers its products in certain targeted market segments throughout Canada.

Together with Les Mutuelles du Mans (Canada) Inc., a subsidiary of Les Mutuelles du Mans, of France, Industrial-Alliance is co-owner of Unindal Inc. (“Unindal”), a holding company which owns all the shares of Industrial-Alliance General Insurance Company.

Industrial-Alliance also owns a mutual fund brokerage firm that offers products complementary to those offered by the Company and a newly created trust company.

Recent Acquisition and Dispositions

In January 1999, the Company acquired for \$201 million in cash the Canadian operations of Seaboard, an insurance company founded in 1953 and based in Vancouver. As part of that transaction, Industrial-Alliance also acquired a subordinated debenture issued by Seaboard and held by the seller in the amount of \$55 million. Seaboard offers individual insurance products as well as credit insurance offered by automobile dealers, and specializes in group insurance for special markets. As of December 31, 1998, Seaboard had assets under management of approximately \$1.5 billion, 320 employees and a network of approximately 1,800 brokers. Seaboard’s operations have been combined with those of North West of Canada, thus enabling the Company to expand its distribution networks and its product line in the western provinces, where most of Seaboard’s operations are concentrated. With the acquisition of Seaboard, the Company anticipates costs reductions of some \$6 million in Seaboard’s annual administrative costs, and expects half of those reductions to be achieved in 1999 and the balance in 2000.

In June 1999, Industrial-Alliance signed a letter of agreement with Swiss Re Life & Health America Inc. for the sale of North West Life Assurance Company of America. As well, Unindal signed a letter of agreement with The Co-operators Group Limited for the sale of The Canadian Union and The Equitable General Insurance Company. These sales are subject to approval by the regulatory authorities and to certain other conditions, such as negotiating and executing final agreements. Closings for these sales should take place by the end of August 1999. Management considers that these dispositions will not have a material effect on the Company’s financial results.

Conversion

The following summary of the conversion proposal must be read with the full text of the conversion proposal included in Chapter 7 of the Member Guide.

Overview of the conversion proposal

On June 1, 1999, Industrial-Alliance announced its intention to proceed with the conversion of the Company into a share capital insurance company. If the conversion proposal is approved, conversion will take effect on the date of the letters patent of conversion in accordance with *An Act respecting conversion*. On the effective date of conversion, the following events will take place: (i) Industrial-Alliance will be converted into a share capital insurance company; (ii) eligible members will be entitled to receive conversion benefits in exchange for their member interests; (iii) the Industrial-Alliance participating account will be restructured in accordance with the conversion proposal; and (iv) outstanding preferred securities will be converted into preferred shares. Furthermore, Industrial-Alliance plans to enter into an underwriting agreement pursuant to which its common shares will be offered, subject to certain conditions set by a syndicate of underwriters in an IPO.

Commencement of conversion

Conversion will be contingent on the following: (i) approval of the conversion proposal by a majority of at least two thirds of the members voting in person or by proxy at a special meeting called for that purpose; (ii) adoption of *An Act respecting conversion* by the National Assembly; and (iii) issuance of letters patent pursuant to *An Act respecting conversion*.

If the conversion proposal does not take effect, then Industrial-Alliance will remain a mutual insurance company, the interests of its eligible members will remain unchanged, and none of the conversion benefits will be paid to them.

Summary of An Act respecting conversion

Unlike the federal legislation, Québec has no demutualization regime for mutual life insurance companies. In order for a mutual insurance company to be converted to a share capital company, the Québec regime requires that the National Assembly pass a private bill. The primary purpose of this bill, known for reference purposes as “*An Act respecting conversion*”, will be to authorize the conversion of Industrial-Alliance under certain terms and conditions,

such as the 10% limit on the ownership of the share capital of Industrial-Alliance. Before *An Act respecting conversion* is passed, a review process will be conducted by certain government agencies, including the IGFI. This bill is also subject to a favourable report by the Minister of Finance of Québec. Like any other private bill, *An Act respecting conversion* must go through the normal legislative process before the National Assembly of Québec. The final text of *An Act respecting conversion* will be known only after it has gone through all the steps of the legislative process.

Payment of Conversion Benefits to Eligible Policyholders

Conversion benefits will take the form of common shares or a cash amount. Each eligible member will receive the following: (i) a fixed number of five common shares, regardless of the number and value of the policies held by that member; and (ii) a variable number of common shares obtained by applying formulas that take into account, among other things, the size of the policies and, where appropriate, the duration of the policy. Please refer to Article 7 of the conversion proposal contained in Chapter 7 of the *Member Guide* for further details on the allocation formulas.

Most eligible members will have the choice of receiving either the common shares allocated to them or a cash amount. Foreign policyholders will be entitled solely to a cash amount. The cash amount corresponds to the per share initial offering price of the common shares under the IPO, multiplied by the number of common shares allocated to those eligible members. Payment of conversion benefits in cash is subject to several conditions.

The Initial Public Offering (IPO)

The purpose of the IPO is to create an organized market for the common shares, to fund the payments to eligible members wishing to receive a cash amount and to possibly raise additional funds for the general corporate purposes of Industrial-Alliance. The terms of the IPO, including the offering price and the total number of common shares offered, will be determined by the board of directors of Industrial-Alliance, in consultation with the underwriters, on the date an underwriting agreement is signed by Industrial-Alliance, and will be based on factors such as the number of eligible members who are required to receive or who have elected to receive a cash amount; Industrial-Alliance's needs for additional funds; market conditions for equity distributions in general; the interest shown by investors for shares of life and health insurance companies; the Company's financial result and its future prospects.

Investors purchasing common shares under the IPO will own a portion of the Industrial-Alliance outstanding common shares. Such portion will depend on the size of the IPO. See "Initial Public Offering" in Chapter 5.

Share Sale Service

Eligible policyholders receiving common shares at the time of conversion may sell their common shares through an investment dealer or the service established by Industrial-Alliance. Industrial-Alliance will offer this service to assist eligible members in selling their common shares.

Such service will be in operation 30 days after the conversion and will be offered for a period of at least two years. Afterwards, Industrial-Alliance will be entitled to suspend the service, but only after making a public announcement to that effect.

Restructuring of the Participating Account

Industrial-Alliance has two separate accounts for its general funds — one for participating policies and the other for non-participating policies. With the participating account, the assets, liabilities and surplus applicable to participating policies are recorded separately. After the conversion, Industrial-Alliance will continue to maintain a participating account for all participating policies issued by it. As of April 30, 1999, Industrial-Alliance ceased to offer participating policies and does not intend to offer any in a foreseeable future. The non-participating account will become the shareholders' account. Any surplus in the pre-conversion participating account of Industrial-Alliance will be transferred to the shareholders' account.

The Life and Health Insurance Industry in Canada

Life and health insurance companies offer Canadians products and advisory services designed to provide financial security in the event of death, disability or illness. They also offer retirement planning products and advisory services.

Like the financial services industry as a whole, the life and health insurance industry has undergone considerable changes over the past few years. The environment is constantly changing, creating both business opportunities and challenges for life and health insurance companies. Among the most important factors influencing the industry are the following:

- *Demographics* — The aging of the Canadian population creates a change in the needs of consumers, who are more concerned with savings and retirement products as well as with estate planning.
- *The deregulation of the financial services industry* — The deregulation of the financial services industry has lifted a number of regulatory barriers specific to companies in the industry such as banks, savings and credit unions, insurance companies, investment dealers and trust companies. This has led to increased competition.
- *The consolidation of the industry* — The life and health insurance industry has seen a number of mergers and acquisitions over the past few years. Some foreign insurance companies have withdrawn from the Canadian market, which has created business opportunities for other insurers. The demutualizations that have been completed or are underway could result in further consolidation of the industry.
- *New distribution networks* — A number of distribution initiatives have been implemented in the industry, such as the distribution of insurance products by investment dealers and the direct distribution of insurance products.
- *Technology* — The possibility of offering direct communications links between customer and insurer, for example in the insurance and group pension sectors, provides a competitive advantage to large insurers. In addition, using technological solutions makes it possible to develop new products, improve the insurance underwriting process and reduce some administrative costs. Using specialized software and laptop computers, agents can offer quality service to customers while improving productivity.
- *Demutualization* — The mutual structure does not allow for financing through common shares, which can facilitate growth while allowing more active participation in the consolidation trend. A number of mutual insurance companies in Canada and elsewhere in the world have proposed to their policyholders a conversion into a share capital company. In Canada, five major insurance companies have either completed their demutualization or are in the process of doing so. In the United States, the United Kingdom, South Africa and Australia, a number of large mutual insurance companies have already demutualized.

The following table provides some information on the life and health insurance industry in Canada for the periods indicated:

The Life and Health Insurance Industry in Canada

		Years ended December 31				
	<u>Growth⁽¹⁾</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>
		(millions of dollars unless otherwise indicated)				
Total premiums ⁽²⁾	5.4%	35,902	34,379	29,748	28,666	29,138
Funds under management (assets)						
General fund	3.1%	167,614	162,309	157,465	153,171	148,615
Segregated funds	<u>21.1%</u>	<u>59,571</u>	<u>46,643</u>	<u>35,629</u>	<u>30,316</u>	<u>27,684</u>
Total funds under management	<u>6.5%</u>	<u>227,185</u>	<u>208,952</u>	<u>193,094</u>	<u>183,487</u>	<u>176,299</u>

(1) Average annual growth for the four-year period from December 31, 1994 to December 31, 1998.

(2) Including deposits of segregated funds and premiums for administrative services only contracts ("ASO contracts").

Source : Canadian Life and Health Insurance Association Inc. ("CLHIA")

In 1998, Canadians paid \$35.9 billion in premiums, including \$9.1 billion (25.3%) in individual life and health insurance, \$17.4 billion (48.5%) in individual and group annuity and \$9.4 billion (26.2%) in group insurance. From 1994 to 1998, assets under management increased to \$227.2 billion from \$176.3 billion. During the same period, total

premiums for the industry grew at an average annual rate of 5.4% while total funds under management increased at an average annual rate of 6.5%.

Individual Life Insurance in Canada

The individual life insurance market relates to life insurance coverages held by individuals. Individual life insurance is offered mainly by life and health insurance agents. The individual life insurance market in Canada has been one of the fastest growing segments of the insurance market over the past five years. The ten largest life and health insurance companies account for over 82% of new life insurance sales in Canada on a consolidated basis.

The following table provides an overview of the individual life insurance market in Canada for the periods indicated.

The Individual Life Insurance Market in Canada

		Years ended December 31				
	<u>Growth⁽¹⁾</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>
(millions of dollars unless otherwise indicated)						
Sales for the year						
Annualized premiums	3.5%	762	740	737	695	664
Insurance coverage	3.9%	116,859	110,826	103,355	100,617	100,457
Total in force						
Premiums	6.5%	7,887	7,260	6,807	6,385	6,139
Insurance coverage	6.0%	939,546	870,652	822,038	781,479	743,371

(1) Average annual growth for the four-year period from December 31, 1994 to December 31, 1998.

Sources : CLHIA and Life Insurance Marketing and Research Association ("LIMRA")

From 1994 to 1998, life insurance sales expressed in annualized premiums and insurance coverage increased at an average annual rate of 3.5% and 3.9%, respectively. Total premiums for the life insurance in force increased at an average rate of 6.5% over the same period. As of December 31, 1998, Canadians owned approximately \$940 billion in life insurance coverage and paid insurers \$7.9 billion in annual premiums.

Management believes that the individual life insurance market should grow at the same rate over the next few years. Growth is expected to result from a combination of factors such as the following:

- The popularity of life insurance products with those persons wishing to benefit from tax benefits associated with some types of life insurance policies or persons wishing to properly cover any taxes payable upon their death.
- The popularity of life insurance as a tool for estate planning.
- The aging of the population, which is leading to an increase in sales of specific insurance products. For example, this situation has led to the introduction of new insurance products providing specific coverage for critical illnesses.
- The creation of new distribution networks such as brokerage firms targeting high-income clients with specific insurance products needs.
- Normal growth in the Canadian population and in the number of households.

Individual Savings Market in Canada

Canadian consumers have access to a wide array of savings and retirement products offered by financial institutions. As at December 31, 1998, funds under management totalled \$881 billion, \$527 billion of which were invested in guaranteed funds, and \$354 billion in managed funds such as mutual funds and segregated funds; the latter being offered primarily by life insurance companies.

As shown in the following table, all financial institutions are active in this market. However, deposit-taking institutions dominate the market with a 51.0% share as at December 31, 1998, compared to 37.1% for mutual fund corporations, and 7.7% for life insurance companies.

Individual Savings Market in Canada

		As at December 31				
	<u>Growth⁽¹⁾</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>
	(billions of dollars unless otherwise indicated)					
Guaranteed funds:						
Banks	1.4 %	305	303	304	307	289
Trusts	(8.2)%	49	48	63	64	69
Savings and credit unions	3.8 %	95	91	91	87	82
Governmental institutions	3.4 %	8	7	7	7	7
Canada savings bonds	(3.2)%	29	31	33	31	33
Life insurers (individual and annuities)	<u>(4.4)%</u>	<u>41</u>	<u>45</u>	<u>48</u>	<u>50</u>	<u>49</u>
Total guaranteed funds:	<u>(0.1)%</u>	<u>527</u>	<u>525</u>	<u>546</u>	<u>546</u>	<u>529</u>
Fully managed funds:						
Life insurers (segregated funds)	40.1 %	27	19	12	8	7
Mutual funds	<u>26.7 %</u>	<u>327</u>	<u>283</u>	<u>212</u>	<u>146</u>	<u>127</u>
Total managed funds	<u>27.5 %</u>	<u>354</u>	<u>302</u>	<u>224</u>	<u>154</u>	<u>134</u>
Total	7.4 %	881	827	770	700	663

(1) Average annual growth for the four-year period from December 31, 1994 to December 31, 1998.

Sources: Bank of Canada Review, IFIC Monthly Statistics and CLHIA Factbook

Between 1994 and 1998, the individual savings market grew at an average annual rate of 7.4%. During the same period, the general decline and the relatively low level of interest rates combine with the good performance of the stock market resulted in changes in the investment behaviour of consumers, who have shown a marked preference for mutual funds and segregated funds which posted an average annual growth of 27.5%, while funds invested in guaranteed funds showed no growth. As at December 31, 1998, 40.2% of the savings of Canadians were invested in fully managed funds, compared to 20.2% as at December 31, 1994.

Management believes that the savings and retirement products market should continue to grow substantially over the next few years. The aging of the population, the concerns of Canadians with respect to governmental pension plans and the increased popularity of RRSPs should contribute to this growth.

Group Savings Market in Canada

The group savings market in Canada differs from the individual savings market and that it is only comprised of registered retirement plans including defined benefit pension plans and defined contribution pension plans, as well as group RRSPs and deferred profit sharing plans ("DPSP").

Insurance companies offer all of such products and held \$59 billion in funds under management in such market as at December 31, 1998, which represents 10.5% of the market.

Group Savings Market in Canada

		As at December 31				
	<u>Growth⁽¹⁾</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>
	(billions of	dollars	unless	otherwise	indicated)	
Trusteed pension plan	12.9 %	505	467	420	358	311
Insured annuities and guaranteed funds ⁽²⁾	(2.6)%	27	28	29	29	30
Segregated funds ⁽²⁾	13.9 %	32	26	22	19	19
Total	11.9 %	564	521	471	406	360

(1) Average annual growth for the four-year period from December 31, 1994 to December 31, 1998.

(2) Exclusively offered by life insurance companies.

Sources: CLHIA Factbook and Statistics Canada

The vast majority of the funds held in group pension plans are trusteed pension plans managed by pension committees or by portfolio managers, banks or trust companies that invest the funds of their clients in a variety of

investment vehicles in accordance with the investment policy of the plan. The complex administrative procedures and the increasingly higher cost to employers have adversely affected traditional plans to the benefit, among others, of the group RRSPs which are offered by all financial institutions.

Management believes that the growth observed over the past few years should continue in the future. This growth is driven by the aging of the population and new employee compensation vehicle such as group RRSPs and DPSPs. Moreover, the small and medium-sized businesses market represent attractive growth opportunities.

Group Life and Health Insurance in Canada

The Canadian group life and health insurance market is highly concentrated, as the ten largest companies collect over 70% of the premiums paid annually. Group life and health insurance includes credit insurance and plans for association members. However, these two markets are not as large as the market for employee benefit plans.

The table below presents the growth in total premiums from employee benefit plans in Canada for the periods indicated.

		Total Premiums				
		Years ended December 31				
	Growth⁽¹⁾	1998	1997	1996	1995	1994
(millions of dollars unless otherwise indicated)						
Life insurance	4.1%	1,686	1,655	1,395	1,481	1,436
Health insurance	7.0%	6,721	6,351	5,815	5,561	5,129
ASO contracts	10.9%	5,821	5,555	5,152	4,464	3,849
Total	8.1%	14,228	13,561	12,362	11,506	10,414

(1) Average annual growth for the four-year period from December 31, 1994 to December 31, 1998.

Source: Benefits Canada's Group Insurance Annual Directory

Over the past four years, the market has grown by approximately 8% per year. Growth in this market was greater in health insurance and ASO contracts than in life insurance mainly as a result of the increase in medical costs.

In the past few years, growth in this market was also greater with respect to policies bought by medium-sized companies. Management believes that this market segment is more profitable than the large company segment for which the plans are usually bought based on the group's own experience.

Management believes that the growth achieved over the past few years should continue. The factors that will affect the growth of the market include job creation, salary increases (on which life and disability insurance benefits are calculated) and the increased cost of health care — particularly drugs, which alone account for 65% of health insurance benefits.

Management believes that there are opportunities for insurance companies to further penetrate the small and medium-sized company market by offering products that are better suited to such market and by continuing to focus on distribution. In the large company sector, value-added services and the product line are the key growth factors.

Business of the Company

Overview

The Company offers, directly or through its subsidiaries, a wide range of insurance and annuity products, primarily in Canada. As of June 30, 1999, it had \$12.5 billion in assets under management, while the amount of individual insurance in force totalled \$74.7 billion. As of December 31, 1998, the Company ranked seventh in Canada in terms of general funds assets among over one hundred life and health insurance companies.

Industrial-Alliance offers directly or through two of its subsidiaries, a wide array of life and health insurance products. Industrial-Alliance and North West of Canada (recently combined with Seaboard) distribute the same product line but in different regions — primarily in Québec, Ontario and the Atlantic Provinces in the case of Industrial-Alliance and in the western provinces in the case of North West of Canada. National Life focuses on targeted market segments and distributes its own product line throughout Canada.

From 1994 to 1998, the Company realized an average annual growth in premiums of 13.2%, (16.7% taking Seaboard into account in 1998) as compared with 5.5% for the industry as a whole. During this period, each business

line of the Company outpaced the industry in terms of sales growth. In the first quarter of 1999, the Company ranked first in Canada for sales of individual life insurance. As of December 31, 1998, the Company ranked fourth in Canada in terms of amounts of life insurance in force (including Seaboard's policies). The Company achieved a higher profit than the average for the industry with an average return of 14% on policyowners' equity for the past three years.

The Company competes in four insurance and annuity business lines — individual insurance, individual annuities, group insurance and group annuities. Each of these business lines was profitable during the period between 1994 and 1998.

In Canada, the Company currently has over 1.5 million individual clients, including the employees of some 7,500 institutional clients and businesses. The Company has one of the largest insurance products distribution networks in Canada. As of June 30, 1999, the network comprised some 1,219 exclusive agents, 11,087 brokers and 570 life and health insurance specialists employed by investment dealers, the national accounts network.

In 1998, 51% of the Company's premiums were generated from the individual insurance and annuities business lines, 46% from the group insurance and group annuity business lines and 3% from other sources.

For the six-month period ended June 30, 1999, 13.9% of total premiums originated from the western provinces, 39.7% from Ontario, 37.0% from Québec, 7.4% from the Atlantic Provinces and 2.0% from outside Canada.

Corporate Strategy

The Company's objectives are to consolidate its position in the Canadian market while maintaining its significant position in the Québec market, increase in a profitable way its market shares in its various business lines, and remain a low cost insurer. Management believes that these objectives will allow the Company to maximize value for shareholders while maintaining a higher return on its operations.

The Company develops and implements its strategy in three-year cycles. Every three-year plan contains specific objectives that are reviewed periodically by management. The Company's strategy is based on the following three objectives: developing a profitable and diversified life and health insurance business throughout Canada; making profitability and financial strength a priority; and accelerating business growth.

Developing a profitable and diversified life and health insurance business throughout Canada

The Company plans to continue expanding its life and health insurance business in Canada so as to increase its market shares in each of its business lines and take advantage of any potential economies of scale. It is also looking for business opportunities throughout Canada, particularly acquisitions in its business lines. The Company intends to pursue the geographical diversification of its activities in Canada. For example, the recent acquisition of Seaboard was instrumental in increasing critical mass in the western provinces. This acquisition has resulted in synergies with North West of Canada, in an increased range of products and in the distribution of the Company's products through Seaboard's network.

Profitability and financial strength as a priority

Profitability and financial strength are key components of the Company's strategy. All of the Company's initiatives, including those related to its growth strategy, are driven by these elements, which are measured according to four criteria: the return on policyowners' equity, the level of capitalization, the quality of investments and the adequacy of actuarial liabilities.

- *Return on policyowners' equity* — The Company aims to achieve a high, steady return from its operations. From 1996 to 1998, it achieved an average rate of return on policyholders' equity of 14.0%. This rate is among the highest in the industry. This was achieved notably through appropriate product pricing, strict control of unit costs, which are among the lowest in the industry, and active management of the product line, with emphasis on the sale of products requiring less capital. The Company reviews its product pricing regularly and revises it when justified by changes in economic or demographic conditions. The Company does not offer non profitable products unless they appear promising in terms of future profitability. From 1996 to 1998, 56% of the net income was generated by insurance products and 44% by savings and retirement products.
- *Level of capitalization* — The Company continues to manage its capital base actively, efficiently and cautiously. As of June 30, 1999, the Company had a total capitalization of \$878.5 million, which is twice

the amount of capitalization at December 31, 1994. The capitalization includes \$618.5 million in policyholders' equity, \$75 million in preferred securities and \$185 million in subordinated debentures. As of June 30, 1999, the ratio of available capital to the minimum required capital totalled 181.2%. This ratio is higher than the ratio required by the regulatory authorities. The Company's objective is to maintain a capitalization ratio between 175% and 200%.

- *Quality of investments* — The Company's investment policy places emphasis on the protection of capital while achieving as high a return as possible. Specific benchmarks have been established to guide investment diversification and manage credit risks so as to maintain assets at a high level of quality. Assets are allocated in accordance with sound management principles. As of June 30, 1999, 47.0% of the portfolio was comprised of bonds (of which only 0.20% were rated BB or less) and 36.6% of mortgage loans (with a delinquency rate of 0.50%, a rate which is lower than the industry rate). Non-performing assets accounted for as less as 0.36% of investments as of June 30, 1999, the lowest rate since the beginning of the decade. This rate is also below average for the industry.
- *Adequacy of actuarial liabilities* — The Company evaluates its actuarial liabilities based on cautious assumptions, according to recognized actuarial practices. These provisions are adequate to cover the Company's obligations to its policyholders and their beneficiaries. These liabilities are carefully matched with investments so as to protect the Company from interest rate fluctuations. As of June 30, 1999, the spread between the duration of assets and liabilities was 0.19 year, which is far below the approximate 0.25 year spread provided for in the Company's investment policies.

The financial strength of Industrial-Alliance and its subsidiaries is recognized by rating agencies. A.M. Best Company, Inc. raised the rating of North West of Canada during the first quarter of 1999. North West now has an A (excellent) rating as do Industrial-Alliance and National Life. In 1998, Canadian Bond Rating Services, Inc., which rates only Industrial-Alliance, renewed the three ratings assigned to it — namely, A (high) for its claims paying ability, A for the series 2 subordinated debentures and P2 (low) for its preferred securities.

Accelerating business growth

The Company is one of the fastest growing among the ten largest life and health insurance companies in Canada. The Company intends to maintain its performance. Taking into account the acquisition of Seaboard, the Company achieved an average annual increase in premiums of 16.7% between 1994 and 1998 compared to 5.5% for the industry as a whole. Since 1994, all of the Company's business lines achieved an increase in sales that outpaced the industry as a whole. This was especially true of the individual life insurance sector, in which the Company ranked third in terms of first year annualized premiums for the period between 1994 and 1998, and first for the first quarter of 1999.

The Company's growth is based on the following three factors: expanding its distribution networks and increasing their productivity, expanding the range of products and services offered and making selective acquisitions.

- *Expanding its distribution networks and increasing their productivity* — The Company has one of the largest individual insurance products and annuities networks in Canada. These products are distributed through three distribution networks: a network of exclusive agents, including some 1,219 exclusive agents, a network of brokers comprised of 11,087 brokers and a newly created network of national accounts comprising 570 life and health insurance specialists employed by investment dealers. In the group insurance and group annuity business lines, the Company offers products through various distribution networks, including independent brokers, actuarial consulting firms and exclusive agents specialising in this business line. The Company aims to continue expanding its distribution networks and to increase their productivity. With respect thereto, the Company has introduced new distribution methods such as the direct distribution of new products in conjunction with its existing distribution networks. The Company has also formed strategic alliances with other financial services providers to distribute its products and to expand its product lines. For example, the Company has recently established a new distribution network with investment dealers (the national accounts network) and will offer to its agents the mutual funds of other companies.
- *Expanding the range of products and services offered* — The Company's strategy is such that it aims to adjust its product range constantly in order to meet the changing needs of clients, both for conventional insurance, savings and retirement, and for tax and estate planning. For example, the Company recently introduced disability insurance products for self-employed workers and universal insurance products

adapted to new markets. Furthermore, the Company has increased the number of segregated funds offered to customers from 28 to 47.

With regard to the group insurance and group annuity business lines, the Company intends to continue targeting small and medium-sized companies with more flexible products such as new home care benefits.

- *Growth through selective acquisitions* — The Company plans to continue participating actively in the consolidation trend currently underway in the insurance and financial services industry. The Company's management has demonstrated its ability to complete mergers and to successfully integrate the companies it acquired. The Company itself is the result of an amalgamation in 1987 between Industrial and Alliance. Industrial-Alliance has since acquired National Life (1988, Toronto); integrated some 200 intermediaries from Cooperants, Mutual Life Insurance Society (1992, Québec); amalgamated with Solidarity (1996, Québec); purchased the insurance portfolio of Canadian Union (1996, Québec); and acquired Seaboard (1999, Vancouver), which has since been combined with North West of Canada. Converting Industrial-Alliance to a share capital company will support this growth strategy by allowing the financing of acquisitions through the issuance of common shares.

Business Lines

The net income represents the sum of premium income, investment income and other income, less the cost of the liabilities towards the policyholders, net transfers to segregated funds, policyholder dividends, commissions and other fees, as well as taxes. The table below presents the net income for each of the Company's business lines, for the periods indicated.

	Net Income													
	Six months ended June 30				Years ended December 31									
	1999		1998		1998		1997		1996		1995		1994	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
	(unaudited)				(millions of dollars unless otherwise indicated)									
Individual insurance	15.5	39.0	11.6	37.7	26.9	38.6	27.0	41.2	32.4	54.1	25.6	49.7	22.4	43.8
Individual annuities	13.3	33.5	10.3	33.4	21.0	30.1	20.2	30.9	12.7	21.2	10.3	20.0	11.5	22.5
Group insurance	(0.4)	(1.0)	2.6	8.4	5.0	7.2	6.8	10.4	6.7	11.2	6.3	12.2	5.9	11.6
Group annuities	7.2	18.2	5.9	19.2	14.7	21.1	14.5	22.2	8.1	13.5	9.3	18.1	11.3	22.1
Other ⁽¹⁾	4.1	10.3	0.4	1.3	2.1	3.0	(3.1)	(4.7)	—	—	—	—	—	—
Total	39.7	100.0	30.8	100.0	69.7	100.0	65.4	100.0	59.9	100.0	51.5	100.0	51.1	100.0

(1) From 1994 to 1996, the net income shown under the heading Other is proportionally distributed among the Company's other business lines. The net income amounts shown above do not reflect the conversion of Industrial-Alliance to a share capital insurance company.

From 1994 to 1998, the Company's net income showed sustained growth and all of the Company's life and health insurance business lines were profitable.

Individual life insurance

— Overview

The Company is a leader in the individual life insurance market in Canada. Its targeted products combined with the efficiency of its distribution networks have resulted in premium growth above the average for the industry. Between 1994 and 1998, sales, expressed in first year annualized premiums, posted an average annual growth of 16.9%, compared to 3.5% for the Canadian industry as a whole. The acquisition of Seaboard in early 1999 bolstered this position, making Industrial-Alliance the top ranked company in Canada for the first six months of 1999, with 13.5% of new sales of individual life insurance expressed in first year annualized premiums. As of December 31, 1998, the Company ranked fourth in Canada in terms of individual life insurance in force (including Seaboard's policies).

The following table presents, for the periods indicated, the key indicators of the Company's individual life insurance business line.

Individual Life Insurance

	As at and for the six months ended June 30		As at and for the years ended December 31				
	1999	1998	1998	1997	1996	1995	1994
	(unaudited)		(millions of dollars unless otherwise indicated)				
Sales: Annualized							
premiums	52.4	33.2	74.7	60.8	53.8	47.9	40.0
Total premiums	261.4	200.4	416.3	372.6	344.5	315.1	307.0
Life insurance in force ..	74,706.0	58,843.9	60,469.4	57,858.8	55,638.3	51,175.3	45,112.7
Market share ⁽¹⁾	n/a	n/a	9.8%	8.2%	7.3%	6.9%	6.0%
Policy retention rate ⁽²⁾ ...	92.0%	92.0%	92.0%	92.0%	91.0%	91.0%	91.0%
Net income	15.5	11.6	26.9	27.0	32.4	25.6	22.4
Rate of return on policyowners' equity ..	11.8%	8.7%	10.0%	10.0%	14.4%	13.9%	13.9%

(1) Annualized premiums market share.

(2) The average policy retention rate for the individual insurance industry in Canada was 91% between 1994 and 1998.

During the six-month period ended on June 30, 1999, the Company reported sales of \$52.4 million expressed in first year annualized premiums, an increase of 57.8% over the same period for the previous year.

The Company achieved a 7.9% annualized growth in total life insurance premiums between 1994 and 1998. Management believes that this growth is attributable to the quality of its products, the size and diversity of its distribution networks and the quality of its customer service.

— Product Line

The Company's individual life insurance product line allows it to meet the specific needs of several market segments. The principal features of the product line are flexibility and adaptability to the needs and budgets of customers.

The Company markets two insurance product lines under three brand names. Industrial-Alliance and North West of Canada offer the same product line under their own brand name, primarily in Ontario, Québec and the Atlantic Provinces, in the case of Industrial-Alliance, and in the western provinces in the case of North West of Canada. National Life markets its own product line in targeted markets throughout Canada.

The Company offers universal insurance, conventional permanent life insurance, term insurance and disability insurance products and will soon be offering a product to cover customers in the event of critical illness. Furthermore, the Company is preparing the introduction of insurance products with preferential pricing for clients with healthy life styles.

The following table presents, for the periods indicated, a sales breakdown by category of life insurance products.

Breakdown of Individual Life Insurance Sales

	Company			Industry ⁽¹⁾		
	1998	1997	1996	1998	1997	1996
	(in percentage)					
Universal life	72	61	44	52	45	41
Permanent life	18	27	41	28	35	40
Term insurance	10	12	15	20	20	19
Total	100	100	100	100	100	100

(1) Source: LIMRA

Universal life insurance represents the largest portion of the Company's sales. Between 1996 and 1998, universal life insurance sales in Canada increased at an average annual rate of 23.3%. During the same period, the Company's universal policy sales increased by an average of 52.2% per year. Universal life insurance is especially popular with high-income customers because of the flexibility of the product and the related tax benefits it offers.

— Target Customers

The Company serves a broad customer base in Canada. Industrial-Alliance and North West of Canada are very familiar with the average-income household market, which has always accounted for a sizeable portion of its customers. National Life serves primarily high-income clients. As of December 31, 1998, the Company had 940,000 life insurance customers (including Seaboard).

For the first six months of 1999, the breakdown of sales by the Company in Canada expressed in annualized premiums was as follows: 24.2% in the western provinces, 24.7% in Ontario, 42.1% in Québec and 4.3% in the Atlantic Provinces. The Company also offers products in the western United States, where sales totalled \$2.4 million, which is 4.7% of the Company's total sales.

— Strategy

In the individual insurance sector, the Company intends to maintain its growth by continuing to expand all of its distribution networks, keeping up with the needs of its target customers by designing new products to meet certain needs in the areas of estate planning, taxes and savings. The Company also plans to maintain its unit costs at a lower level than the industry average while continuing to implement new technologies in order to better support its distribution networks.

The Company plans to provide its agents with new analytical tools to help them better explain to their clients their tax obligations upon death. As is contemplated by the federal government white paper the Company also plans to use the services offered by the Canadian Payments Association when allowed to do so by law in order to give policyholders access to their funds at all times and to expand its product line.

Individual Annuities

— Overview

The Company offers a wide array of individual annuities products for both savings and retirement. It distributes its products through its exclusive agents and through brokers.

In the individual annuities market, the Company's growth rate surpasses that of the industry. From 1994 to 1998, premiums grew annually by an average of 10.7%, compared with 2.4% for the industry. During that period, funds under management increased by 8.5%, versus 4.6% for the industry and the segregated funds assets of the Company showed an annual average growth of 64.7%.

The following table presents, for the periods indicated, certain key indicators for the individual annuities line of business.

Individual Annuities							
	Six months ended June 30		Years ended December 31				
	1999	1998	1998	1997	1996	1995	1994
	(unaudited)		(millions of dollars unless otherwise indicated)				
Premiums	277.1	328.8	502.6	523.7	298.1	260.1	335.2
Market share ⁽¹⁾	n/a	n/a	5.4%	5.2%	4.1%	3.5%	3.8%
General fund assets	2,086.7	1,793.0	1,739.7	1,997.4	2,329.4	2,372.7	2,302.1
Segregated funds assets	<u>2,351.4</u>	<u>1,727.1</u>	<u>1,789.2</u>	<u>1,354.1</u>	<u>619.3</u>	<u>302.3</u>	<u>243.1</u>
Funds under management	<u>4,438.1</u>	<u>3,520.1</u>	<u>3,528.9</u>	<u>3,351.5</u>	<u>2,948.7</u>	<u>2,675.0</u>	<u>2,545.2</u>
Market share ⁽¹⁾	n/a	n/a	4.8%	4.9%	4.4%	4.1%	4.0%
Net income	13.3	10.3	21.0	20.2	12.7	10.3	11.5
Rate of return on policyowners' equity ..	21.4%	20.6%	19.3%	23.0%	18.3%	18.7%	26.1%

(1) In the Canadian life and health insurance industry.

Source : CLHIA

The Company believes that this growth is attributable to three principal factors: the extent and efficiency of its distribution networks, the line of segregated funds it offers to its clients and the popularity of mutual funds segregated funds related products. This popularity of segregated funds related products lead, among other things, to certain transfers from general funds.

— *Product Line*

The Company markets two individual annuities product lines under three brand names as it does for its individual insurance operations. The product line offered is such that it covers the various needs of consumers.

The Company's savings products include retirement savings plans that can be registered and locked-in retirement accounts. The Company's retirement products include registered retirement income funds, life income funds, life annuities and fixed-term annuities. In addition, the Company offers 41 segregated funds that guarantee the principal under certain terms and conditions. Although agents have not been required to obtain a license to distribute segregated funds, the Company offers its agents a training program at its own expense so that they can better advise its customers. The Company also provide its agents with tools designed to help them analyse the investment profiles of their customers, so that they in turn can make investments decisions based on their tolerance for risk and retirement objectives.

Of the 41 segregated funds offered by the Company in this business line, 20 are managed internally, while the others are managed by external managers, including AGF Funds Inc., Bissett & Associates Investment Management Ltd., Fidelity Investments Canada Limited, Goodman and Company Investment Counsel, State Street Global Advisors and Templeton Management Limited. In order to offer its customers a certain level flexibility, the Company allows them to make transfers among its segregated funds at no cost.

— *Target Customers*

The Company serves a vast clientele in the individual annuities market in Canada. As at December 31, 1998, over 250,000 individual annuity policies were in force. This clientele primarily buys registered retirement saving products.

The individual annuities products being distributed through the same networks as those of the individual life insurance products, the target customers are mainly similar, namely the middle income family for Industrial-Alliance and North West of Canada, and a more wealthy clientele for National Life.

For the first six months of 1999, sales breakdown of the Company in Canada expressed in underwritten premiums was as follows: 21.2% in the western provinces, 18.7% in Ontario, 53.5% in Québec, 5.3% in the Atlantic Provinces. The Company also realized sales in western United States accounting for 1.3% of its global sales.

— *Strategy*

In the individual annuities sector, the Company will continue to develop new products that meet the changing needs of its customers. For example, the Company plans to offer a registered education savings plan. This product is becoming increasingly popular due to the benefits granted by the federal government. It is designed for market segments similar to those targeted by Industrial-Alliance.

The Company is also planning to make available to its distribution networks a line of mutual funds available on the market. The Company has entered into distribution agreements with 12 mutual funds companies.

The Company's technological infrastructure places it in a position to offer other distributors, such as investment dealers, the opportunity to distribute the Company's segregated funds.

Group Insurance

— *Overview*

The Company offers conventional life, health and disability insurance products designed for employee benefit plans. North West of Canada ranks number one in credit insurance offered by automobile dealers. It has also developed an expertise in specific markets such as special risk insurance and insurance for members of associations.

Group insurance products are distributed in Québec by Industrial-Alliance, in the Atlantic Provinces and Ontario by National Life and in the western provinces by North West of Canada.

The table below presents the key indicators of the group insurance business lines for the periods indicated:

Group Insurance

	Six months ended June 30		Years ended December 31				
	1999	1998	1998	1997	1996	1995	1994
	(unaudited)		(millions of dollars unless otherwise indicated)				
Sales: Annualized premiums	25.2	27.4	45.5	21.6	32.3	21.2	22.1
Total premiums (including ASO Contracts) . . .	170.6	110.4	233.5	212.6	218.0	207.5	202.7
Net Income	(0.4)	2.6	5.0	6.8	6.7	6.3	5.9
Return on policyowners' equity	(0.7)%	11.2%	12.5% ⁽¹⁾	20.9%	26.9%	37.7%	55.7%

(1) The decline in return is attributable to an investment to modernize computer systems.

From 1994 to 1998, the average annual growth of premiums was 3.6%. During that period, the Company maintained a higher profit margin than that of the industry. The decline in the return on policyowners' equity is explained largely by the improvement in the Company's capitalization during that period.

Management believes that operating costs must be controlled and loss ratios closely monitored for each of the coverages and each of the market segments if satisfactory profitability is to be achieved. Management also believes in the importance of targeting the most profitable products, which are life and disability insurance, as well as the small and medium-sized companies market. The substantial growth observed in the costs associated with health insurance, particularly prescription drugs insurance, is driving rates up. As a result, profits from these coverages are becoming increasingly volatile. Management believes that the Company's operating costs are lower than those of its competitors of the same size, and, in some cases, proportionately lower than those of larger insurers.

— *Product Line*

The group insurance product line includes life insurance, accidental death and dismemberment insurance, health and dental care insurance, including insurance for medical costs and salary insurance. Some complementary products are also offered, such as employee assistance programs, medical assistance outside Canada, critical illness insurance and home care insurance. These products are offered on an insured basis or through administrative services only contracts (or ASO contracts).

More specific disability and life insurance products have been developed for the credit insurance market, either for mortgage loans, personal loans, lines of credit or business loans. The Company offers these products through automobile dealers and financial institutions.

For the associations market, the Company has developed life and disability insurance products and insurance products for critical illnesses.

Lately, the Company has taken a number of steps to assist its customers in managing disability programs. The Company's goal is to promote a rapid return to work by sick or disabled employees, which contributes to the reduction of the cost of the plan for the employer, while increasing the profitability of this business line. The Company is now offering new protections under credit insurance for its business clientele.

— *Target Customers*

In 1998, the Company's total premiums breakdown was as follows: 69.4% for group insurance products offered to employee benefit plans, 24.2% for credit insurance and 6.4% for products involving special risks and products offered to association members.

The following breakdown shows the Company's total premiums in the group insurance sector in 1998: 11.1% in the western provinces, 31.2% in Ontario, 55.0% in Québec and 2.7% in the Atlantic Provinces.

The markets targeted are segmented in terms of clientele. For employee benefit plans, the targeted market includes small and medium-sized companies, where profit margins are higher than for large companies markets. Large companies are often insured through ASO contracts which reflect generally the group's own experience.

The Company is active in two credit insurance niches: financial institutions and automobile dealers. As a result of the acquisition of Seaboard, the Company is now the leader in Canada in the sector of credit insurance offered by automobile dealers.

— *Strategy*

Management intends to increase its share of the small and medium-sized companies market, especially in the Atlantic and western provinces. The Company intends to continue offering large companies a line of products and services adapted to their needs, particularly flexible administrative services only plans.

The Company's strategy is based on quality of service and relations with the clientele and their representatives, controlling overhead and market selection. The Company focuses the distribution of its products using targeted market intermediaries, including the specialized brokers and actuarial consulting firms with which it maintains on-going relationships.

The Company intends to continue developing products and services adapted to the needs of its customers. Recently, the Company invested 5.0 million dollars in its computer systems in order to offer more flexible products. The management programs pertaining to health and disability will be improved in order to reduce the cost of the plans to customers.

In order to sustain growth and further reduce operating expenses, the Company is in the process of integrating its products with those of Seaboard. The Company intends to take advantage of the relationships established with Seaboard's clientele by offering it the Company's product line.

Group Annuities

— *Overview*

The Company distributes its products through Industrial-Alliance, National Life and North West of Canada. It meets the needs of its customers with its vast line of products and services. It also offers specialized and customized products to its clientele.

In Canada, the Company is one of the leaders in the insured group annuity market segment with a market share of nearly 10%. From 1994 to 1998, the Company achieved strong growth in its premiums and funds under management.

The table below presents the key indicator of the Group pensions business line for the periods indicated:

Group Annuities							
	Six months ended June 30		Years ended December 31				
	1999	1998	1998	1997	1996	1995	1994
	(unaudited)		(millions of dollars unless otherwise indicated)				
Premiums	347.8	340.7	609.6	504.0	234.4	331.8	220.2
Market share	n/a	n/a	7.4%	7.0%	3.8%	5.8%	3.7%
General fund assets	2,956.3	2,601.6	2,734.4	2,381.4	2,241.1	2,179.6	2,103.5
Segregated funds assets	765.1	742.2	777.3	692.4	580.1	462.2	298.0
Funds under management	<u>3,721.4</u>	<u>3,343.8</u>	<u>3,511.7</u>	<u>3,073.8</u>	<u>2,821.2</u>	<u>2,641.8</u>	<u>2,401.5</u>
Net income	7.2	5.9	14.7	14.5	8.1	9.3	11.3
Return on policyowners' equity	13.3%	12.7%	14.3%	14.5%	9.6%	12.7%	17.9%

From 1994 to 1998, the average annual growth in the Company's premiums totalled 29.0%, versus 8.1% in the industry. This significant increase is largely due to a contract with a professional association.

— *Product Line*

The two lines of retirement products are insured annuities and savings and retirement products. Insured annuities are life annuity policies guaranteed by the Company. The savings and retirement products include full administrative, actuarial and investment services for defined contribution pension plans or defined benefit pension plans, group RRSPs and deferred profit sharing plans. These products also include a range of investment options such as guaranteed funds and segregated funds.

Of the 46 segregated funds offered by the Company in this business line, 20 are managed internally and the others are managed by external managers such as AGF Funds Inc., Bissett & Associates Investment Management Ltd., Fidelity Investments Canada Limited, Goodman and Company Investment Counsel, State Street Global Advisors and Templeton Management Limited.

The Company offers customized service to participants in group annuity plans, including an interactive voice response system providing participants with direct access to certain information on their accounts. The Company has also a Web site providing some information on its products and services, giving participants access to information on their personal account. In the fall of 1998, the Company carried out a customer satisfaction survey through an independent survey firm. The survey results showed a 94% customer satisfaction rate. The Company plans to continue developing services focusing on education, support and assistance to plan administrators in order to better meet client expectations. Recently, the Company introduced a toll-free "Info-Investment" telephone service to provide better information on the investment options available to plan participants.

Due to its expertise in the area of insured annuities, the Company has been awarded a substantial portion of contracts regarding government assistance programs for workers who have resigned voluntarily in some economically depressed sectors ("POWA"). Since 1991, the Company has earned almost \$300 million in premiums from the federal and provincial governments.

— *Target Customers*

The Company targets clienteles of all sizes throughout Canada to sell its insured annuities products, but focuses on the small and medium-sized companies market for its savings and retirement products. As of December 31, 1998, the Company had over 2,500 policies covering some 110,000 participants.

In 1998, the Company's total premiums breakdown in the group annuity sector was as follows: 27.6% in the western provinces, 44.0% in Ontario, 21.2% in Québec and 7.2% in the Atlantic Provinces.

A Canadian professional association has been a client of the Company for over 32 years. The assets under management of this client account for some 8.6% of the Company's total assets under management and 30% of the assets under management of this business line.

— Strategy

The Company's strategy is to increase its share of the savings and retirement products market while maintaining its insured annuities market share.

Management believes that the small and medium-sized companies market for savings and retirement products offers a substantial potential for growth because of the small number of these companies offering plans to their employees. This goal is in line with measures taken by governments to make the public more aware of the consequences of retirement. The profit margins from this type of product are higher than those from products issued to large companies.

The Company plans to increase its market share primarily in the western and Atlantic provinces. At the beginning of the year, the Company opened a regional sales office in Moncton, New Brunswick. It will also build on the networks newly acquired from Seaboard to cover the western provinces, and will increase its cooperation with the group insurance networks in Québec.

General Insurance

At the beginning of 1999, Unindal re-evaluated its general insurance operations and decided to concentrate them on direct insurance, either with its own employees or with the agents of the Company's networks, Industrial-Alliance General Insurance Company. At the same time, Unindal received some worthwhile offers to purchase its subsidiary, The Canadian Union Insurance Company, which it agreed to sell in June 1999. The sale should be completed in the third quarter and shall be effective as of June 30, 1999. This sale was accounted for in the financial statements of June 30, 1999. Management believes that this sale will not have a material effect on the Company's financial results. The Company expects to continue offering general insurance products to supplement its product line in Québec.

Distribution Networks

Individual Insurance and Annuities

The management of the Company believes that part of its success is based on the quality, the size and the diversity of its distribution networks. Although direct distribution of insurance products is gaining some popularity in certain insurance sectors such as general insurance, the Company believes that when it comes to selling life insurance and individual annuities, consumers seek the services and advice of qualified professionals to analyse their particular needs and advise them on the most appropriate products.

The Company distributes its individual life insurance and annuities products through three distribution networks — the exclusive agents network, the brokers network and the national accounts network. As at June 30, 1999, the exclusive agents network included 1,219 agents and managers. The Company also manages a national network comprised of 11,761 brokers. The national accounts network includes 570 life and health insurance specialists employed by investment dealers.

The table below presents the growth of the Company's sales force for the periods indicated:

Distribution Networks

	As at June 30,	As at December 31				
	1999	1998	1997	1996	1995	1994
		(number of agents)				
Exclusive agents network	1,219	1,216	1,152	1,059	1,001	963
Brokers network	11,761 ⁽¹⁾	7,607	5,831	5,092	4,043	n/a
National accounts network	570	210	—	—	—	—
Total	<u>13,550</u>	<u>9,033</u>	<u>6,983</u>	<u>6,151</u>	<u>5,044</u>	<u>n/a</u>

(1) Includes 11,087 brokers in Canada and 674 in the United States.

The distribution networks have grown considerably in the past few years, primarily due to the rapid expansion of the brokers networks and the addition of the national accounts network. As of December 31, 1998, the geographical breakdown of the distribution network as a whole was as follows: 33.6% in the western provinces, 27.2% in Ontario, 34.7% in Québec and 4.5% in the Atlantic Provinces.

— *Exclusive Agents Network*

The Company owns the third largest network of exclusive agents in Canada and by far the largest in Québec. This network is made up of qualified agents hired and trained by the Company.

The table below shows changes in the Company's network of exclusive agents for the periods indicated.

Growth of the Exclusive Agents Network

	Six months ended June 30,	Years ended December 31,				
	1999	1998	1997	1996	1995	1994
		(number of agents)				
Number of agents and managers (beginning of period)	1,216	1,152	1,059	1,001	963	958
New agents	192	387	401	360	252	204
Terminations	(167)	(291)	(232)	(243)	(211)	(192)
Retirement, disability and other	(22)	(32)	(76)	(59)	(3)	(7)
Number of agents and managers (end of period)	1,219	1,216	1,152	1,059	1,001	963
Net change	3	64	93	58	38	5
Four-year retention rates						
Company	33%	23%	29%	23%	24%	24%
Industry ⁽¹⁾	n/a	n/a	21%	22%	23%	23%

(1) Source: LIMRA

Over the past five years, the Company has maintained a higher retention rate than the industry due to substantial investments in continuing training programs for agents and agency managers.

Currently, over 40% of the exclusive agents are enrolled in certified life insurance or financial planning programs. Exclusive agents distribute the segregated funds of the Company. In addition, the Company is taking other steps to help its agents obtain the license required to distribute mutual funds.

The Company is also investing heavily in developing software to assist its exclusive agents with sales support and client file management. The Company's exclusive agents all use laptop computers. These tools allow them to effectively manage their customer databases and analyse customer needs.

All agents and managers are paid based on a commission system. New agents and managers participate in a financing program. The compensation system for new exclusive agents provides for high first year commissions with lower commissions being paid when insurance policies are renewed. Management believes that its compensation system favours the development of new business opportunities, while maintaining a competitive cost structure and a good quality of customer service.

The Company's network of exclusive agents is an important component of its distribution network in Quebec. The size of this exclusive agents network allows the Company to operate at low cost.

— *Brokers Network*

The Company distributes its products through a network of 11,087 brokers located throughout Canada and usually grouped under general agents. The Company also has 674 brokers in the United States. The rapid growth in the number of brokers, which has almost tripled since 1995, is attributable primarily to the Company's expansion outside Québec.

The Company uses brokers primarily to distribute its products outside Québec. Its strategy focuses on helping general agents develop their business. This way, the Company establishes close working relationships with those general agents and the brokers who represent them. Many general agents are connected to the Company's computer systems that give them access to customer files while performing transactions in their agencies. The Company provides its brokers with all the needs analysis and sales support softwares they need to offer customers a professional service similar to what is offered by the exclusive agents.

— *National Accounts Network*

In order to establish a national accounts network, the Company has entered into agreements with several investment dealers in Canada. The Company has designed some specific products for this clientele and has implemented the necessary infrastructure to offer a service that meets the needs of that clientele. As of June 30, 1999, the Company distributed its insurance products through approximately 570 specialized life and health insurance brokers. These specialists have access to the network of investment advisers comprising over 5,000 representatives throughout Canada.

— *Other Methods of Distribution*

Although management believes that life insurance is best distributed through professionals, the Company remains open to any other distribution method such as direct distribution on a selective basis. For example, it has plans to offer some accident insurance products directly. The primary objective being to support the work of its existing distribution networks by offering customers, for example, the option of adding guarantees to their policies rapidly and in a flexible manner.

— *Group Insurance and Annuities*

The Company distributes its group insurance and annuities products through two networks. The first distribution network serves all of Canada and is comprised of the network of brokers and actuary consulting firms. North West of Canada and National Life use this network exclusively. The second network is comprised of Industrial-Alliance exclusive agents. In addition, the Company's group insurance and annuities sales staff assists these networks in promoting products and also provides technical assistance in the sales and customer services process.

Competition

Individual Life Insurance

The individual life insurance market in Canada is highly competitive and is growing steadily. Although some one hundred companies operate in this market, the ten largest companies share 82% of new insurance sales in Canada on a consolidated basis. Moreover, banks are beginning to penetrate this market by creating and acquiring life and health insurance companies. At the end of the first six months of 1999, the Company ranked first in terms of new sales with a 13.5% market share in Canada, up from the third position with a market share of 9.8% in 1998.

Management believes that its distribution networks of 13,550 agents, its low unit costs and its financial strength are competitive advantages that should allow it to continue growing. Its flexibility in product development and pricing will allow it to react quickly to market conditions.

Management also believes that the Company, with its extensive distribution networks, is in a position to compete effectively and to satisfy consumer demand. Management believes that most consumers still prefer purchasing life insurance policies from a professional providing personalized service.

Individual Annuities

In the individual annuities market, competition traditionally comes from other financial institutions. The Company does not anticipate any major changes in this area. The Company responded to the competition in the retirement and savings market by marketing its segregated funds and expanding its line of funds offered. The Company also plans to act as a mutual funds distributor, to be able to offer a wider range of products to its clientele and thus retain a larger portion of its clients' savings under the same banner.

Group Insurance

The group life and health insurance market is very competitive. Profit margins in this market are generally lower than in the individual insurance products market. In order to reach satisfactory profitability levels, it is vital to keep operating costs under control while closely monitoring loss ratios for each of the guarantees and each of the market segments. Efficient claim management is also important. Management believes that with the reduction in the number of insurers operating in this market, there are favourable business opportunities for increased premiums and profitability. Management is also of the opinion that these opportunities are particularly favourable in the small and medium-sized companies segment.

Group Annuities

The savings and retirement products sector is competitive since most financial institutions are actively involved in it. Among these are banks, trust companies and investment dealers. Management is of the opinion that the Company's major competitive advantages are the extent of its networks, the flexibility of its services, the quality of its investment advisory services and its low unit costs.

Investments

Investment Management

As of June 30, 1999, assets under management totalled \$12.5 billion. The Company's investment operations are organized into three sectors. The securities sector includes the management of stocks and bonds, derivatives, and short-term investments as well as monitoring the matching of assets with liabilities, setting interest rates for the products offered by the Company and segregated funds management. The mortgage loans sector includes the underwriting and the management of residential and commercial loans. The real estate investment sector involves the development and management of the real estate portfolio of the Company.

The securities sector operations are concentrated primarily at the Industrial-Alliance head office and at its subsidiary, National Life, both for the management of general funds and segregated funds. The underwriting and administration of loans are done in different regions of Canada. The other investment categories are managed primarily at the head office of Industrial-Alliance.

The investment services' objective with regards to the general funds favours first and foremost capital protection, as well as maximizing returns, whereas the goal for segregated funds is to maximise the return for unitholders.

Since 1997, the Company has transferred the management of some segregated funds to external managers. This practice gives clients more options with regard to available investment vehicles.

Investment Policies

The investment policies of each of the regulated entities of the Company are approved by the board of directors of each of those entities, on the recommendation of their investment committee. These policies along with their implementation standards and procedures are in accordance with those that any prudent and reasonable person would apply to an investment portfolio. The investment committee of the board of directors of every entity is responsible for monitoring the application of the investment policy and is required to review investment activities on a regular basis.

The investment policy aims to ensure capital protection while maximizing returns. The principal rules of the investment policies include standards, restrictions, limits and procedures pertaining to the management of risks related to interest rate fluctuations as well as the other financial risks, diversification, credit risks, liquidity, the risk related to exchange rate fluctuations as well as ethics and rules of professional conduct.

Matching

Investments relating to the Company's life insurance and annuities activities are mainly concentrated in fixed income securities (mainly bonds and mortgage loans). As for the assets associated with the Company's surplus, they are used mostly for long-term growth by investing in its subsidiaries and optimizing after-tax income.

Although constantly improving returns are part of the daily concerns of portfolio managers, the primary target of the Company's investment policy is capital protection and a strict matching of asset and liability. By carefully managing the matching, the Company can mitigate the risks associated with interest rate fluctuations.

As of June 30, 1999, the spread between the duration of assets and liabilities was 0.19 year, which is far below the ± 0.25 year spread provided for in the Company's investment policy. This statistic does not include the very long-term liabilities of the individual life insurance business block, for which the Company uses an active management strategy aimed at maximizing total return on investments.

Liquidity

The Company has adopted a liquidity policy in order to ensure that funds are available for both operational and strategic purposes. The operational component refers to the daily liquidity requirements which are measured with relation to the current activities of the Company. As for the strategic component, it refers to the liquidity requirements over medium and long terms. The administration of the latter component is based on an analysis of cases involving

assumptions taking into account unexpected developments or events requiring unusual levels of liquidity. The liquidity requirements are satisfied through a rigorous administration of the cash flow and the matching of the projected cash flows of assets and liabilities of the Company, as well as the quality and marketability of the securities held.

Breakdown of Investments

Slightly less than half the Company's investments are comprised of bonds. The table below presents the Company's investment portfolio by asset category for the periods indicated.

Breakdown of Investments by Asset Category

	As at June 30		As at December 31									
	1999		1998		1997		1996		1995		1994	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
	(unaudited)											
	(millions of dollars unless otherwise indicated)											
Bonds	4,231.7	47.0	3,740.2	47.8	3,701.1	50.4	3,693.9	51.3	3,359.7	49.6	3,028.4	47.1
Mortgage loans	3,296.5	36.6	2,833.3	36.2	2,698.4	36.8	2,702.1	37.6	2,633.0	38.9	2,678.2	41.6
Stocks and equity indices	551.0	6.1	399.2	5.1	284.7	3.9	195.0	2.7	135.6	2.0	133.0	2.1
Real estate	379.5	4.2	323.7	4.1	313.0	4.3	288.4	4.0	265.0	3.9	282.1	4.4
Policy loans	121.8	1.4	120.0	1.5	109.7	1.5	107.8	1.5	99.0	1.5	97.2	1.5
Short-term investments	361.2	4.0	347.1	4.5	165.6	2.2	133.8	1.9	191.9	2.8	124.6	1.9
Investment and other funds ⁽¹⁾	61.4	0.7	64.5	0.8	68.5	0.9	74.1	1.0	87.2	1.3	89.4	1.4
Book value	<u>9,003.1</u>	<u>100.0</u>	<u>7,828.0</u>	<u>100.0</u>	<u>7,341.0</u>	<u>100.0</u>	<u>7,195.1</u>	<u>100.0</u>	<u>6,771.4</u>	<u>100.0</u>	<u>6,432.9</u>	<u>100.0</u>
Market value	<u>9,730.7</u>		<u>8,783.3</u>		<u>8,231.9</u>		<u>7,853.9</u>		<u>7,196.3</u>		<u>6,409.8</u>	

(1) This fund is comprised mainly of investments linked to the \$60 million subordinated debentures.

Market Value of Investments

As of June 30, 1999, the overall market value of investments of the Company exceeded the book value by approximately \$728 million. Fluctuations in the market value of fixed income investments resulting from interest rate fluctuations are offset by an equivalent change in the value of the actuarial liabilities backed by those assets. The table below presents, for the periods indicated, the excess of the market value of the Company's assets over their book value.

Excess (deficiency) of Market Value over the Book Value of Investments

	As at June 30		As at December 31				
	1999		1998	1997	1996	1995	1994
	(unaudited)						
	(millions of dollars)						
Bonds	641.7		832.1	762.5	492.6	323.7	(37.5)
Mortgage loans	49.1		100.5	108.1	147.8	95.0	(11.5)
Stocks and equity indices	11.7		8.4	4.1	8.7	5.6	13.0
Real estate	<u>25.1</u>		<u>14.3</u>	<u>16.2</u>	<u>9.7</u>	<u>0.6</u>	<u>12.9</u>
Total excess	<u>727.6</u>		<u>955.3</u>	<u>890.9</u>	<u>658.8</u>	<u>424.9</u>	<u>(23.1)</u>

The table below presents the geographical breakdown of investments for the periods indicated.

Breakdown of Investments by Region

	As at June 30	As at December 31		
	1999 (unaudited)	1998	1997	1996
		(in percentage)		
Québec	45.9	51.8	54.1	56.6
Ontario	21.5	19.6	18.6	17.2
Western provinces	22.4	17.7	17.1	15.9
Atlantic Provinces	4.2	4.4	4.0	4.3
Outside Canada	6.0	6.5	6.2	6.0
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Bonds

In accordance with the rules defined in the investment policies, the Company invests in bonds with a BBB credit rating or higher at the time of purchase. The credit rating considered corresponds to the evaluation conducted by Dominion Bond Rating Services (“DBRS”) or Canadian Bond Rating Services if the former is unavailable. In the event no evaluation is available by either of these rating agencies, the Company itself evaluates the quality of the securities in question. As of June 30, 1999, 92.3% of the bond portfolio was comprised of securities rated A or higher, while securities rated BB or less accounted for only 0.20% of the portfolio. The Company applies a very strict matching policy, which allows it to maintain a relatively low proportion of Canadian government bonds and a relatively higher proportion of A and AA rated bonds which provide a higher yield.

The Company also invests in bonds issued by way of private placements. These generally offer higher yields, greater access to information from the management of the issuers and more favourable terms negotiated with the issuers than those for comparable publicly traded securities. However, these bonds do not have the same degree of liquidity. As of June 30, 1999, the Company held bonds issued through private placements with a total book value of \$475.6 million, representing approximately 11.2% of its bond portfolio.

The table below presents a breakdown of the bonds by credit rating and issuer category.

Breakdown of Bonds by Credit Rating and Issuer Category

	As at June 30 ⁽¹⁾		As at December 31									
	1999		1998		1997		1996		1995		1994	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
	(unaudited)		(millions of dollars unless otherwise indicated)									
DBRS rating or equivalent												
AAA	568.0	13.4	383.8	10.3	299.3	8.1	256.0	6.9	329.1	9.8	318.9	10.5
AA	425.3	10.1	420.5	11.2	421.4	11.4	331.8	9.0	300.3	9.0	334.0	11.0
A	2,910.8	68.8	2,622.5	70.1	2,653.1	71.7	2,755.5	74.6	2,403.5	71.5	2,042.8	67.5
BBB	319.3	7.5	303.8	8.1	316.7	8.5	325.4	8.8	295.6	8.8	274.4	9.1
BB or less	8.3	0.2	9.6	0.3	10.6	0.3	25.2	0.7	31.2	0.9	58.3	1.9
Total	<u>4,231.7</u>	<u>100.0</u>	<u>3,740.2</u>	<u>100.0</u>	<u>3,701.1</u>	<u>100.0</u>	<u>3,693.9</u>	<u>100.0</u>	<u>3,359.7</u>	<u>100.0</u>	<u>3,028.4</u>	<u>100.0</u>
Issuer categories												
Governments ⁽²⁾	2,184.1	51.6	2,166.2	57.9	1,975.2	53.4	2,185.8	59.2	1,755.5	52.3	1,442.6	47.7
Municipalities	77.8	1.8	81.9	2.2	124.4	3.4	189.8	5.1	249.3	7.4	252.1	8.3
Corporations	1,969.8	46.6	1,492.1	39.9	1,601.5	43.2	1,318.3	35.7	1,354.9	40.3	1,333.7	44.0
Total	<u>4,231.7</u>	<u>100.0</u>	<u>3,740.2</u>	<u>100.0</u>	<u>3,701.1</u>	<u>100.0</u>	<u>3,693.9</u>	<u>100.0</u>	<u>3,359.7</u>	<u>100.0</u>	<u>3,028.4</u>	<u>100.0</u>

(1) As of June 30, 1999, bonds with a book value of \$4.6 million (representing 0.1% of the Company’s bond portfolio) had been overdue for three months or more.

(2) Government issuers and those with a direct guarantee or an equivalent indirect guarantee, not including municipalities.

Mortgage Loans

Almost all the mortgage loans are comprised of loans secured by a first ranking mortgage. In those cases where the loans are not insured by a mortgage loan insurance company, the amount of the loan is limited to 75% of the value of the property at the time the loan is granted. As of June 30, 1999, 40.1% of the portfolio was comprised of insured loans. In addition, 74.9% of the loans were secured by single family or multi-unit residential properties. The table below presents a breakdown of the mortgage loans by type of loan and type of property.

Breakdown of Mortgage Loans by Type of Loan and Type of Property

	As at June 30		As at December 31									
	1999		1998		1997		1996		1995		1994	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
	(unaudited)		(millions of dollars unless otherwise indicated)									
Type of property												
Single family	559.1	17.0	511.4	18.1	533.6	19.8	563.0	20.8	582.1	22.1	610.5	22.8
Multi-unit residential ⁽¹⁾	1,909.2	57.9	1,655.4	58.4	1,493.3	55.3	1,493.1	55.3	1,410.7	53.6	1,368.8	51.1
Total residential	2,468.3	74.9	2,166.8	76.5	2,026.9	75.1	2,056.1	76.1	1,992.8	75.7	1,979.3	73.9
Retail	312.3	9.5	242.9	8.6	263.1	9.8	235.5	8.7	209.6	8.0	217.2	8.1
Office	208.9	6.3	153.2	5.4	217.5	8.1	171.0	6.3	293.0	11.1	337.3	12.6
Industrial	195.9	5.9	141.1	5.0	124.4	4.6	105.4	3.9	85.0	3.2	92.1	3.4
Other	111.1	3.4	129.3	4.5	66.5	2.4	134.1	5.0	52.6	2.0	52.3	2.0
Total commercial	828.2	25.1	666.5	23.5	671.5	24.9	646.0	23.9	640.2	24.3	698.9	26.1
Total	3,296.5	100.0	2,833.3	100.0	2,698.4	100.0	2,702.1	100.0	2,633.0	100.0	2,678.2	100.0
Type of mortgage loans												
Insured	40.1%		41.5%		42.0%		42.0%		38.9%		36.8%	
Conventional	59.9%		58.5%		58.0%		58.0%		61.1%		63.2%	

(1) Residences of more than four units.

The percentage of delinquent mortgage loans was 0.50% as at June 30, 1999 and has remained below 2% for the past seven years. This percentage is considerably less than that of the industry, which was 1.52% as of March 31, 1999, according to the *Report on Investments — Canadian Mortgage Loans* published by the CLHIA.

The table below presents the delinquency rate of the Company's mortgage loans.

Delinquency Rate of Mortgage Loans⁽¹⁾

	As at June 30		As at December 31				
	1999		1998	1997	1996	1995	1994
	(unaudited)						
	(in percentage)						
Insured	0.63		0.85	2.38	1.99	3.25	2.32
Conventional	0.41		0.25	0.95	0.93	0.68	0.87
Total	0.50		0.50	1.54	1.37	1.67	1.40
Industry ⁽²⁾	1.52 ⁽³⁾		1.65	1.85	2.23	2.93	3.40

(1) Ratios were calculated based on the capital balance of the loans before the provision associated with them.

(2) Taken from the Report on Investments — Canadian Mortgage Loans (for the fourth quarter, 1998) published by CLHIA

(3) As of March 31, 1999.

Stocks and Equity Indices

Investments in shares are used to match long-term liabilities, to cover liabilities related to certain equity indexed universal life insurance contracts or to invest a portion of the Company's capital and surplus. The strategy for managing equity portfolios favours maximizing the after-tax return on investment by using preferred shares, shares

with high dividend yields, equity indices and segregated funds units. The table below represents the composition of the Company's equity portfolio.

Breakdown of Shares

	As at June 30		As at December 31									
	1999		1998		1997		1996		1995		1994	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
	(unaudited)											
	(millions of dollars unless otherwise indicated)											
Common	17.9	3.2	43.9	11.0	18.9	6.7	73.6	37.8	81.6	60.2	117.3	88.2
Preferred	250.1	45.4	166.3	41.7	121.4	42.6	104.2	53.4	41.6	30.7	2.4	1.8
Equity indices	201.4	36.6	170.6	42.8	121.3	42.6	16.5	8.5	12.4	9.1	12.2	9.1
Segregated funds												
units	81.6	14.8	18.4	4.5	23.1	8.1	0.7	0.3	0.0	0.0	1.1	0.9
Total	<u>551.0</u>	<u>100.0</u>	<u>399.2</u>	<u>100.0</u>	<u>284.7</u>	<u>100.0</u>	<u>195.0</u>	<u>100.0</u>	<u>135.6</u>	<u>100.0</u>	<u>133.0</u>	<u>100.0</u>

The Company has a policy of diversification by industrial sector and by issuer in order to limit its exposure to risk and in order to participate in the growth of all the major sectors of the Canadian economy.

Real Estate

As of June 30, 1999, real estate accounted for 4.2% of the Company's investments. The Company has a policy of maintaining 5.0% of its portfolio in real estate investments.

The table below presents a breakdown of the Company's real estate by type of property for the periods indicated.

Distribution of Real Estate by Type of Property

	As at June 30		As at December 31									
	1999		1998		1997		1996		1995		1994	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
	(unaudited)											
	(millions of dollars unless otherwise indicated)											
Office	243.0	64.0	230.1	71.1	228.1	72.9	225.0	78.0	210.9	79.6	212.7	75.4
Retail	74.1	19.6	55.5	17.1	42.1	13.5	24.5	8.5	21.6	8.1	24.4	8.7
Residential	30.5	8.0	15.3	4.7	20.6	6.6	17.3	6.0	14.1	5.3	22.3	7.9
Industrial	13.0	3.4	3.1	1.0	3.4	1.1	4.2	1.4	1.9	0.7	5.9	2.1
Land	15.0	4.0	17.9	5.5	16.7	5.3	14.3	5.0	12.8	4.9	13.1	4.6
Other	3.9	1.0	1.8	0.6	2.1	0.6	3.1	1.1	3.7	1.4	3.7	1.3
Total	<u>379.5</u>	<u>100.0</u>	<u>323.7</u>	<u>100.0</u>	<u>313.0</u>	<u>100.0</u>	<u>288.4</u>	<u>100.0</u>	<u>265.0</u>	<u>100.0</u>	<u>282.1</u>	<u>100.0</u>

As of June 30, 1999, the vacancy rate of the Company's real estate portfolio was 8.32%, which compares favourably with the rate for commercial rental properties in the major cities of Canada. As of December 31, 1998, the book value of the real estate used by the Company totalled \$14.3 million. In addition, the market value of the real estate investments was higher than the book value, with a ratio of 106.3%.

Policy Loans

Most insurance policies, with the exception of term insurance, allow policyholders to obtain loans based on the redemption value of their policy. As of June 30, 1999, \$121.8 million were outstanding under such loans, representing 1.4% of total investments.

Non-performing Assets

The Company's assets are of high quality with a low rate of non-performing assets from investments.

The table below presents the Company's non-performing assets for the periods indicated.

Net Non-Performing Assets (Including Restructured Loans)

	As at June 30,	As at December 31				
	1999	1998	1997	1996	1995	1994
	(unaudited)					
	(millions of dollars unless otherwise indicated)					
Conventional mortgage loans	9.3	14.9	45.3	46.2	23.6	18.7
Bonds	4.6	8.5	4.9	5.0	1.2	1.5
Properties repossessed	18.8	37.4	35.4	28.1	26.5	36.4
Other	—	—	—	13.0	13.0	13.0
Total	<u>32.7</u>	<u>60.8</u>	<u>85.6</u>	<u>92.3</u>	<u>64.3</u>	<u>69.6</u>
Provisions	14.4	22.2	30.3	34.9	34.3	20.2
Percentage of investments	0.36%	0.78%	1.17%	1.28%	0.95%	1.08%

Past due bonds and mortgage loans for three months or more as well as restructured loans are considered non-performing assets. These investments are valued at an amount that does not exceed their expected realization value and provisions are recorded if necessary. When such investments are considered non-performing assets, the interest accrued but not received is only included in income when received.

In addition to the provisions for non-performing assets, actuarial liabilities include margins for adverse deviation pertaining to insufficient future return on assets to cover the entire duration of corresponding liabilities. A margin equal to an average of 25 basis points (0.25%) is calculated for every year in the life of an asset linked to a liability.

Rating Agencies

Ratings on claims paying ability and financial strength are important factors for insurance companies. They are a significant source of information for clients, distributors and other users of financial information. Credit ratings play a major role in maintaining the public's trust in the Company and in its ability to market its annuities and life insurance products. A decrease of one or more ratings given to the Company could have a material adverse effect on the Company's ability to market its products and increase repurchases of its annuities products.

The financial strength of Industrial-Alliance, North West of Canada and National Life is recognized by two rating agencies. A.M. Best Company, Inc. granted an A (excellent) rating to Industrial-Alliance, North West of Canada and National Life. Canadian Bond Rating Services Inc., which issued a rating for Industrial-alliance only, gave it an A (high) rating for its claims paying ability and an A rating for its Series 2 subordinated debentures and a P2 (low) rating for its preferred securities.

Ratings on claims paying ability and financial strength of Industrial-Alliance reflect the opinion of a rating agency regarding the financial strength and the operating return of the Company, as well as its ability to honour its respective obligations towards policyowners, and are not aimed at protecting investors. These ratings are not a valuation of securities, nor do they constitute a recommendation to buy, hold or sell a security.

Real Estate

Industrial-Alliance owns its head office, which is located at 1080 Chemin St-Louis in Sillery. The Company also rents offices occupied by its sales force and the other members of its personnel in Canada. See "Investments — Real Estate". Management believes that the Company's real estate meets its current needs in all material respects.

Reinsurance Coverage

The Company uses reinsurance to limit its risk of claims related to mortality and morbidity. The Company also estimates the assurability of persons depending on the type and level of protection wanted in accordance with criteria periodically reviewed. As part of its individual life insurance activities, the Company uses reinsurance to limit its risk for a single insured person to \$500,000 of insurance, \$400,000 for National Life and \$350,000 for North West of Canada. Furthermore, the Company is protected under reinsurance contracts in the event of a disaster, an event that involves a number of insured persons. Management believes that the disaster reinsurance contracts executed by the Company offer adequate coverage for the Company. In 1998, the total cost of reinsurance coverage assigned accounted

for 6.0% of individual insurance premiums. In the group insurance market, the Company also uses reinsurance to limit its exposure to amounts deemed appropriate by management.

Any changes to the maximum level of exposure is subject to the approval of management. The board of directors reviews any changes to the reinsurance policy of the Company to ensure that the level of risk insured remains adequate. The Company monitors the financial strength of the companies with which it enters into reinsurance contracts as well as their performance on a regular basis. However, it remains liable for the liabilities to policyholders. Should a reinsurance company become insolvent, the Company may be exposed to an additional risk to the extent where it would be unable to transfer reinsured amounts to another reinsurance company.

Selected Consolidated Financial Information

The table below provides selected consolidated financial information of the Company for each of the periods indicated. The information contained in the operating results and the balance sheet data is derived from the consolidated financial statements of the Company presented elsewhere in this chapter. The information contained in the other data is derived from the consolidated financial statements of the Company and the “Management’s discussion and analysis of results of operations and financial condition” appearing elsewhere in this chapter. This information must be read in conjunction with those sections. The following items have not been restated to reflect the conversion and include the impact of the acquisition of Seaboard as of January 1999.

	As at and for the six months ended June 30,		As at and for the years ended December 31,				
	1999	1998	1998	1997	1996	1995	1994
	(unaudited)						
	(in millions of dollars, unless otherwise indicated)						
Operating results							
Premiums	1,069.2	992.9	1,788.2	1,643.9	1,133.1	1,145.0	1,089.7
Investment income	342.7	291.0	597.0	586.8	587.7	579.2	548.5
Fees and other	31.4	23.0	49.1	35.1	26.7	16.8	16.2
Total	1,443.3	1,306.9	2,434.3	2,265.8	1,747.5	1,741.0	1,654.4
Cost of commitments to policyowners	830.6	661.9	1,347.2	1,142.9	1,069.7	1,245.1	1,087.6
Net transfer to segregated funds	318.2	424.0	637.1	712.9	304.0	154.1	236.3
Commissions, general and other expenses	226.8	160.2	324.8	304.4	268.1	247.4	242.2
Net income before income taxes and dividends to policyowners	75.0	60.8	125.2	105.6	105.6	94.4	92.0
Net income	39.7	30.8	69.7	65.4	59.9	51.5	51.1
Balance Sheet Data							
General fund assets	9,349.4	7,810.1	8,085.3	7,600.1	7,461.9	7,030.6	6,676.1
Actuarial liabilities	7,771.6	6,583.1	6,777.8	6,555.3	6,566.5	6,326.3	6,053.5
Subordinated debentures	185.0	110.0	110.0	110.0	110.0	60.0	60.0
Preferred equity securities	75.0	—	—	—	—	—	—
Policyowners' equity	618.5	539.7	583.2	506.5	438.9	361.1	311.6
Other Data							
Funds under management							
General fund assets	9,349.4	7,810.1	8,085.3	7,600.1	7,461.9	7,030.6	6,676.1
Segregated funds assets	3,147.1	2,534.0	2,540.6	2,044.9	1,207.5	778.1	546.6
Total	12,496.5	10,344.1	10,625.9	9,645.0	8,669.4	7,808.7	7,222.7
Premiums (life and health insurance)							
Individual life insurance	261.4	200.4	416.3	372.6	344.5	315.1	307.0
Individual annuities	277.1	328.8	502.6	523.7	298.1	260.1	335.2
Group insurance (including ASO contracts)	170.6	110.4	233.5	212.6	218.0	207.5	202.7
Group annuities	347.8	340.7	609.6	504.0	234.4	331.8	220.2
Return on policyowners' equity	13.36%	11.94%	13.02%	14.04%	14.86%	15.61%	18.35%

Management's Discussion and Analysis of Results of Operations and Financial Condition

The Company distributes various insurance and annuity products that are accounted for in either the general fund or segregated funds. The latter include almost exclusively savings and retirement products. The operations of the general fund are reflected in the consolidated statement of income and consolidated balance sheet of the Company. Policyowners have the option of investing all or part of their accumulated amounts in segregated funds, with the remainder, if any, being invested in the Company's general fund. Each segregated fund is made up of assets, recorded separately from the Company's general fund and other segregated funds. The risks and returns resulting from the performance of the investments of each fund are assumed by the policyowner. According to Canadian generally accepted accounting principles, the value of investments in the segregated funds is shown at market value, while the value of the general fund corresponds to cost, adjusted for amortization or to the moving average of the market value.

Except for items specifically related to segregated funds, in particular the value of funds under management or the net transfer to segregated funds, the Company does not segment its results between the general fund and segregated funds, given that the holders of savings and retirement products generally have the option of transferring the sums accumulated under their policies between the general fund and segregated funds. The allocation of amounts invested by policyowners between segregated funds and the general fund can be influenced by factors such as interest rate levels and stock market performance. For example, low interest rates and growing stock markets tend to increase the preference for segregated funds invested in stocks.

Because of this interdependence between the general fund and segregated funds, some items of the general fund income statement discussed below include segregated funds, in particular premiums and the net transfer to segregated funds. The line item indicating the net transfer to segregated funds represents the amounts transferred from the general fund to segregated funds net of transfers from segregated funds to the general fund. Thus, if a policyowner pays a premium and such premium is invested in segregated funds, it will first be included in premiums, then in the net transfer to segregated funds. Later, if the client wishes to transfer an amount from segregated funds to the general fund, the amount will reduce the net transfer to segregated funds.

During the period covered by this analysis, the Company acquired a block of life insurance business as well as an insurance company, in addition to merging with a mutual company in Québec. On January 1, 1999, the Company acquired Seaboard through its subsidiary, North West of Canada, thus adding \$1.5 billion to assets under management. Seaboard's operations are now integrated with those of North West of Canada. Results for 1999 include the results of Seaboard as of the beginning of 1999. On December 16, 1996, the Company acquired the life insurance portfolio of The Canadian Union Insurance Company. The assets in the portfolio totalled \$37 million. On February 1, 1996, the Company amalgamated with Solidarity to form a new entity with the corporate name of Industrial-Alliance Life Insurance Company. This amalgamation increased the amount of assets under management by \$214 million. For 1996, net income includes the results of Solidarity and Canadian Union as of January 1, 1996 and December 16, 1996, respectively.

Management's discussion and analysis of results of operations and financial condition covers the following elements: (i) funds under management, (ii) premiums, (iii) investment and other income, (iv) cost of commitments to policyowners, net transfer to segregated funds and experience refunds, (v) commissions and other expenses, (vi) income taxes, (vii) net income, (viii) changes in financial position and (ix) liquidity and cash resources.

Funds Under Management

	As at June 30	As at December 31				
	1999	1998	1997	1996	1995	1994
	(unaudited)					
		(in millions of dollars)				
General fund assets	9,349.4	8,085.3	7,600.1	7,461.9	7,030.6	6,676.1
Segregated funds assets	3,147.1	2,540.6	2,044.9	1,207.5	778.1	546.6
Total funds under management	<u>12,496.5</u>	<u>10,625.9</u>	<u>9,645.0</u>	<u>8,669.4</u>	<u>7,808.7</u>	<u>7,222.7</u>

Whether from the general fund or segregated funds, funds under management represent a measure of the Company's growth. This growth is affected by the amount of new sales, retention of policies in force and increases in the value of assets. From 1994 to 1998, funds under management increased on average by 10.1% per annum. The

acquisition of Seaboard, combined with the results for the first half of the year, generated a 17.6% increase in the amount of funds under management as at June 30, 1999.

June 1999 compared with December 1998

Funds under management increased by 17.6%, from \$10.6 billion as at December 31, 1998 to \$12.5 billion as at June 30, 1999. The general fund increased by 15.6%, from \$8.1 billion as at December 31, 1998 to \$9.3 billion as at June 30, 1999. Segregated funds grew by 23.9%, from \$2.5 billion as at December 31 1998 to \$3.1 billion as at June 30, 1999. This strong increase in the general fund and segregated funds is primarily due to the addition of Seaboard in 1999, which increased the general fund and segregated funds by \$1.3 billion and \$0.6 billion, respectively.

1998 compared with 1997

Funds under management increased by 10.2%, from \$9.6 billion in 1997 to \$10.6 billion in 1998. The general fund increased by 6.4%, from \$7.6 billion in 1997 to \$8.1 billion in 1998, as a result of normal business growth and a contract between a professional Canadian association and National Life. Segregated funds grew by 24.2%, from \$2.0 billion in 1997 to \$2.5 billion in 1998. This substantial increase is attributable mainly to the popularity of segregated funds with clients, combined with the rising stock market.

1997 compared with 1996

Funds under management increased by 11.3%, from \$8.7 billion in 1996 to \$9.6 billion in 1997. Assets from the general fund increased by 1.9%, from \$7.5 billion in 1996 to \$7.6 billion in 1997. The lower growth in the general fund is attributable to significant transfers from the general fund to segregated funds, combined with a higher level of redemptions in the annuities segments. Funds under management pertaining to segregated funds increased by 69.3%, from \$1.2 billion in 1996 to \$2.0 billion in 1997. This increase is attributable mainly to the popularity of segregated funds with clients and to the rising stock market.

Period from 1994 to 1996

Between 1994 and 1996, funds under management increased by an average of 9.6% per annum, from \$7.2 billion in 1994 to \$8.7 billion in 1996. In that period, the general fund increased by an average of 5.7% per annum, from \$6.7 billion in 1994 to \$7.5 billion in 1996. This increase is due to normal business growth and to the addition of the Solidarity business and the Canadian Union life insurance portfolio. Segregated funds increased by an average of 48.6% during that period, from \$546.6 million in 1994 to \$1.2 billion in 1996. This substantial increase is due primarily to the popularity of segregated funds and the performance of the stock market.

Premiums

	Six months ended June 30,		Years ended December 31,				
	1999	1998	1998	1997	1996	1995	1994
	(unaudited)		(in millions of dollars)				
Individual insurance	261.4	200.4	416.3	372.6	344.5	315.1	307.0
Group insurance	156.7	97.5	207.2	186.8	196.7	187.4	183.5
Individual annuities	277.1	328.8	502.6	523.7	298.1	260.1	335.2
Group annuities	347.8	340.7	609.6	504.0	234.4	331.8	220.2
General insurance	26.2	25.5	52.5	56.8	59.4	50.6	43.8
Total premiums	<u>1,069.2</u>	<u>992.9</u>	<u>1,788.2</u>	<u>1,643.9</u>	<u>1,133.1</u>	<u>1,145.0</u>	<u>1,089.7</u>

From 1994 to 1998, total premiums increased by an average of 13.2% per annum, from \$1.1 billion in 1994 to \$1.8 billion in 1998.

The growth in premiums can be explained by steady internal growth as well as acquisitions. An important factor in the growth in premiums is the popularity of the savings and retirement products represented by group and individual annuities. During that period, premiums from these products increased from \$555.4 million to \$1.1 billion, for an average annual growth rate of 19.0%. The acquisition of Seaboard in 1999 and the Canadian Union life insurance portfolio in 1996, as well as the merger with Solidarity in 1996, also contributed to the increase in premium income.

June 1999 compared with June 1998

For the six-month period ended June 30, 1999, total premium income increased by \$76.3 million compared with the six-month period ended June 30, 1998, to reach \$1,069.2 million. The addition of the Seaboard business was a significant factor influencing the growth in premium income in the first six months of 1999.

Individual insurance — Premium income in this sector showed strong growth of \$61.0 million. This increase is explained by the Seaboard acquisition and the strong first six months of 1999 in terms of new sales, which were up by 57.8% from the same period in 1998 (with sales expressed in annualized first year premiums).

Group insurance — Premium income in this sector increased substantially, by \$59.2 million, primarily due to the Seaboard acquisition and specifically to income from credit insurance.

Individual annuities — In 1999, there was a decline of \$51.7 million compared with the first half of 1998. This decline reflects the disappointing performance of some segregated funds and a more difficult market environment.

Group annuities — Premium income in this sector grew slightly, by \$7.1 million. There was an increase in the government worker adjustment program and a decline related to a large contract with a Canadian professional association.

1998 compared with 1997

Premium income increased by \$144.3 million to \$1.8 billion in 1998. This 8.8% increase is explained in large part by the strength of new sales.

Individual insurance — Premium income from this line of business grew by \$43.7 million, or 11.7% over 1997. This increase is explained by the heightened popularity of the Company's life insurance products.

Group insurance — Premium income from this line of business increased by \$20.4 million. Sales (annualized first year premiums) increased by \$23.9 million compared with 1997, due to a record number of new policies written during the year.

Individual annuities — In 1998, a slight decline of \$21.1 million compared with the previous year can be attributed in part to the ice storm, which occurred during the RRSP period, and to the volatility of financial markets.

Group annuities — The \$105.6 million increase (21.0%) in premium income is mainly a result of the growth in funds related to a contract between National Life of Canada and a Canadian professional association.

1997 compared with 1996

Premium income was up by \$510.8 million (45.1%), to \$1.6 billion, in 1997. New sales were the key factor underlying this increase.

Individual insurance — Premium income from this line of business grew by \$28.1 million, an 8.2% increase over 1996. Annualized first year premiums increased by 13.0% in 1997. Furthermore, the acquisition of Canadian Union's life insurance business in 1996 contributed \$4.7 million in premium income in 1997.

Group insurance — Premium income from this line of business decreased slightly, by \$9.9 million, due to a decline in sales.

Individual annuities — In 1997, premium income increased by \$225.6 million (75.7%) as a result of the marked popularity of the Company's segregated funds.

Group annuities — The significant growth in premium income from this line of business (\$269.6 million) is attributable primarily to the growth in funds related to a contract with a Canadian professional association.

Period from 1994 to 1996

From 1994 to 1996, total premium income grew by \$43.4 million to reach \$1.1 billion in 1996.

Individual insurance — Premium income from this line of business grew by \$37.5 million over two years, while over the same period the Company experienced an average annual increase in new sales of 16.0% (sales being expressed as annualized first year premiums). The merger with Solidarity at the beginning of 1996 contributed greatly to this increase.

Group insurance — Premium income from this line of business increased by \$13.2 million over two years, a result of the increase in sales.

Individual annuities — Premium income from this line of business decreased by \$37.1 million from 1994 to 1996 due to the volatility of financial markets during this period.

Group annuities — Premium income from this line of business increased by \$14.2 million from 1994 to 1996. This increase is attributable to the annual changes in premium income from a major contract with a Canadian professional association, insured annuity policies and certain contracts related to the government worker adjustment program.

Investment and Other Income

	Six months ended June 30		Years ended December 31				
	1999	1998	1998	1997	1996	1995	1994
	(unaudited)		(in millions of dollars)				
Investment income	342.7	291.0	597.0	586.8	587.7	579.2	548.5
Other income	31.4	23.0	49.1	35.1	26.7	16.8	16.2
Total	<u>374.1</u>	<u>314.0</u>	<u>646.1</u>	<u>621.9</u>	<u>614.4</u>	<u>596.0</u>	<u>564.7</u>

Investment income represents the changes in value of certain investments, the gains and losses resulting from the disposition of investments, interest and dividend income, as well as real estate rental income.

June 1999 compared with June 1998

Investment income increased by \$51.7 million in 1999, primarily due to the growth in general fund assets following the Seaboard acquisition. Other income grew by \$8.4 million as a direct consequence of the increase in segregated funds assets. The overall quality of the asset portfolio is higher than that of the industry, according to an annual survey by the rating agency DBRS. Excluding insured mortgage loans, non-performing assets represented 0.36% of investments as at June 30, 1999, compared with 0.78% as at December 31, 1998.

1998 compared with 1997

Investment income rose by \$10.2 million in 1998, primarily due to 6.4% growth in general fund assets, which more than offset the impact of the decline in interest rates. Other income increased by \$14.0 million as a direct consequence of the increase in segregated funds assets.

1997 compared with 1996

Investment income decreased slightly, by \$0.9 million, in 1997. This decrease is the result of weaker growth in general fund assets, combined with a decline in interest rates. Other income rose by \$8.4 million as a direct consequence of the increase in segregated funds assets.

Period from 1994 to 1996

Investment income increased by \$39.2 million from 1994 to 1996. This increase results primarily from the increase in general fund assets, particularly with the addition of Solidarity and the insurance portfolio of Canadian Union. Other income increased by \$10.5 million as a direct consequence of the increase in segregated funds assets.

Cost of Commitments to Policyowners, Net Transfer to Segregated Funds and Experience Refunds

	Six months ended June 30		Years ended December 31				
	1999	1998	1998	1997	1996	1995	1994
	(unaudited)		(in millions of dollars)				
Cost of commitments to policyowners	825.0	659.4	1,330.0	1,132.8	1,044.2	1,245.7	1,078.7
Net transfer to segregated funds	318.2	424.0	637.1	712.9	304.0	154.1	236.3
Experience refunds	5.6	2.5	17.2	10.1	25.5	(0.6)	8.9
Total	<u>1,148.8</u>	<u>1,085.9</u>	<u>1,984.3</u>	<u>1,855.8</u>	<u>1,373.7</u>	<u>1,399.2</u>	<u>1,323.9</u>

The cost of commitments to policyowners includes the increase (decrease) in provisions for future policy benefits, claims incurred (death, contract termination and health benefits and the payment of insured annuities) and interest on amounts on deposit. The increase in provisions for future policy benefits is greatly influenced by the level of premiums

(increase in provisions for future policy benefits), claims incurred (decrease), and the net transfer to segregated funds (decrease). Each year, the Company updates the assumptions used to calculate the provisions for future policy benefits for the Company's lines of business. These updates affect several assumptions, including interest rates, mortality and termination of individual life insurance policies.

June 1999 compared with June 1998

The cost of commitments to policyowners, net transfer to segregated funds and experience refunds grew by \$62.9 million in 1999 due to the normal growth of business and the Seaboard acquisition. The net transfer to segregated funds decreased by \$105.8 million due to weaker growth in the demand for segregated funds.

1998 compared with 1997

The cost of commitments to policyowners, net transfer to segregated funds and experience refunds rose by \$128.5 million in 1998 due to normal business growth. The net transfer to segregated funds decreased by \$75.8 million due to weaker demand for segregated funds. Amounts paid as experience refunds increased from \$10.1 million in 1997 to \$17.2 million in 1998 as a result of the good claims experience in 1998 and a National Life contract.

1997 compared with 1996

The cost of commitments to policyowners, combined with the net transfer to segregated funds and experience refunds, increased by \$482.1 million in 1997 as a result of business growth. This 35.1% increase is influenced significantly by the increase in premium income. The net transfer to segregated funds increased significantly, a result of the popularity of segregated funds. Amounts paid as experience refunds decreased appreciably, from \$25.5 million in 1996 to \$10.1 million in 1997, due to the termination of two National Life group insurance policies in 1996.

Period from 1994 to 1996

The cost of commitments to policyowners, combined with the net transfer to segregated funds and experience refunds, remained relatively stable during the period from 1994 to 1996, increasing by only \$49.8 million, despite the merger with Solidarity and the acquisition of Canadian Union's life insurance portfolio, as a consequence of the small increase in premium income for that period. The net transfer to segregated funds fluctuated significantly during this period, reflecting the popularity of segregated funds. The amounts paid as experience refunds increased markedly from 1995 to 1996, from \$(0.6) million in 1995 to \$25.5 million in 1996, as a result of the termination of two National Life group insurance policies in 1996. The \$9.5 million decline from 1994 to 1995 is attributable to a change in the financial agreement related to credit insurance policies of a major insurance group.

Commissions and Other Expenses

Commissions represent agents' and brokers' compensation on new business and some current business. Premium taxes represent the amounts of taxes to be remitted to the tax authorities based on the premiums of the insurance segments under the applicable tax laws. General expenses represent the various expenses related to the operation of the Company and its subsidiaries, such as employees compensation.

	Six months ended June 30		Years ended December 31				
	1999	1998	1998	1997	1996	1995	1994
	(unaudited)						
	(in millions of dollars)						
Commissions	113.8	78.1	156.4	146.1	117.5	103.3	98.4
Premium taxes	10.7	7.8	16.3	14.9	14.3	13.4	13.0
General expenses	93.4	71.1	145.7	137.0	132.1	128.9	129.0
Net financing expenses	8.9	3.2	6.4	6.4	4.2	1.8	1.8
Total	<u>226.8</u>	<u>160.2</u>	<u>324.8</u>	<u>304.4</u>	<u>268.1</u>	<u>247.4</u>	<u>242.2</u>

June 1999 compared with June 1998

Commissions and other expenses increased by 41.6%, from \$160.2 million in 1998 to \$226.8 million in 1999. This increase reflects primarily the Seaboard acquisition. The issuance of \$75 million of subordinated debentures in early 1999 explains the increase in financing expenses.

1998 compared with 1997

Commissions and other expenses increased by 6.7%, from \$304.4 million in 1997 to \$324.8 million in 1998, reflecting steady business growth and the investment related to the new computerized management system for Industrial-Alliance's group insurance line. Despite this increase, general costs as a percentage of income decreased from 6.05% in 1997 to 5.99% in 1998.

1997 compared with 1996

Commissions increased by 24.3%, from \$117.5 million in 1996 to \$146.1 million in 1997, reflecting the significant increase in sales for 1997. General expenses increased by 3.7%, from \$132.1 million in 1996 to \$137.0 million in 1997, reflecting the growth in business. Despite this rise in general expenses, these expenses as a percentage of income decreased significantly, from 7.56% in 1996 to 6.05% in 1997. The issuance of \$50 million in subordinated debentures in 1996 explains the increase in financing expenses in 1997.

Period from 1994 to 1996

Commissions increased by 19.4%, from \$98.4 million in 1994 to \$117.5 million in 1996. This rise reflects the growth in business, particularly of products with higher commission levels. General expenses saw a 2.4% increase over these two years, from \$129.0 million in 1994 to \$132.1 million in 1996. General expenses as a percentage of total income decreased from 7.80% in 1994 to 7.56% in 1996. The issuance of \$50 million of subordinated debentures in 1996 explains the rise in financing expenses in 1996.

Income Taxes

Income taxes reported in the consolidated statement of income and surplus reflect an income tax expense whose effective rate differs from the federal and provincial statutory tax rates. The following table summarizes these differences for the periods indicated.

Income and Other Taxes

	Six months ended June 30				Years ended December 31									
	1999		1998		1998		1997		1996		1995		1994	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
	(unaudited)				(in millions of dollars, unless otherwise indicated)									
Net income for the period.....	39.7		30.8		69.7		65.4		59.9		51.5		51.1	
Income taxes	21.9		18.0		31.8		17.1		20.9		16.9		14.8	
Net income before income taxes	61.6		48.8		101.5		82.5		80.8		68.4		65.9	
Provision based on the combined rate ..	23.9	38.8	18.7	38.3	40.2	39.6	33.6	40.7	33.6	41.6	26.5	38.7	25.3	38.4
Future income taxes	(3.6)		7.7		9.2									
Income tax payable	25.5		10.3		22.6		17.1		20.9		16.9		14.8	
Total income taxes and effective rate	21.9	35.6	18.0	36.9	31.8	31.3	17.1	20.7	20.9	25.9	16.9	24.7	14.8	22.6

Since 1998, the Company has accounted for income taxes using the liability method. This method takes into account current and future income taxes payable by the Company.

From 1994 to 1997, the Company provided for income taxes using the taxes payable basis. This basis only presents current income taxes payable. The timing differences attributable to policies are taken into account in the Company's provisions for future policy benefits and are the main reason for the increase in the effective income tax rate in 1998. These timing differences can be traced back to, among other things, the value of commitments to policyowners, real estate investments and stock investments.

June 1999 compared with June 1998

The increase in income tax expense from \$18.0 million in June 1998 to \$21.9 million in June 1999 is attributable, among other factors, to higher net income before income taxes. The increase in income taxes payable and the decrease in future income taxes are primarily explained by the change in timing differences and by the increase in non-taxable income, both of which contributed to an effective tax rate that is slightly lower than the June 1998 rate.

1998 compared with 1997

The change in the method of accounting for income taxes increased income tax expense from \$17.1 million in 1997 to \$31.8 million in 1998. This increase is explained specifically by a future tax liability of \$9.2 million in 1998 and the increase in net income before income taxes. The increase in non-taxable income and the use of a tax benefit on a realized loss against capital gains contributed to a significantly lower effective income tax rate than the 1998 statutory rates.

1997 compared with 1996

Income taxes payable decreased from \$20.9 million in 1996 to \$17.1 million in 1997. This decline in 1997 is attributable, among other factors, to higher taxes in 1996 due a gain from the settlement of a lawsuit in 1996 and the increase in non-taxable income in 1997. The effective income tax rate for 1997 is slightly lower than the rate for the previous year, due specifically to more significant timing differences in 1997.

Period from 1994 to 1996

Income taxes payable increased from \$14.8 million in 1994 to \$20.9 million in 1996, reflecting, among other things, the increase in net income before income taxes from 1994 to 1996 and a gain from the settlement of a lawsuit in 1996. The variation in the effective income tax rate during the 1994-1996 period is explained by the use, in 1994 and in 1996, of a tax benefit on a realized loss against capital gains and by the changes in timing differences from one year to the next.

Net Income

Net income is the sum of premium income, investment income, and other income, net of the cost of commitments to policyowners, net transfer to segregated funds, dividends and experience refunds, commissions and other expenses, as well as income taxes.

	<u>Six months ended June 30</u>		<u>Years ended December 31</u>				
	<u>1999</u>	<u>1998</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>
	(unaudited)						
	(in millions of dollars, unless otherwise indicated)						
Net income	39.7	30.8	69.7	65.4	59.9	51.5	51.1
Return on policyowners' equity	13.36%	11.94%	13.02%	14.04%	14.86%	15.61%	18.35%

The Company experienced an average annual increase of 8.1% in its net income for the 1994-1998 period, from \$51.1 million to \$69.7 million, with an average return on policyowners' equity of 15.2%. The decline in the return on policyowners' equity during this period can be attributed to the significant and rapid increase in policyowners' equity. This situation reflects the Company's desire to improve its financial strength.

June 1999 compared with June 1998

Net income for the six months ended June 30 totalled \$39.7 million, up \$8.9 million or 28.9% from the amount recorded for the same period of 1998.

Among the items that contributed positively to net income are the \$7.3 million gain (\$5.3 million after taxes) on the sale of affiliated companies and the substantial increase in insurance and annuity business due primarily to the Seaboard acquisition, completed in January 1999.

Factors that negatively affected net income for the period include a higher-than-usual level of group insurance claims and a substantial increase in individual life insurance sales that resulted in increased expenses associated with new contracts, which should translate into a gain in future years.

1998 compared with 1997

Net income grew from \$65.4 million to \$69.7 million and the return on policyowners' equity declined from 14.04% to 13.02%.

Among the items that had a positive effect on the Company's profitability in 1998, the most important are the good experience for individual and group insurance claims, Unindal's return to profitability, strong growth for funds under management in group annuities and a reimbursement of contributions from the Canadian Life and Health Compensation Corporation.

Factors having a negative impact on the Company's profitability in 1998 include the high growth in new sales of individual life insurance policies, which resulted in an increase in expenses associated with new contracts, which should translate into a gain during the coming years. Major expenditures in computer systems were made in the group life and health segments. Finally, there was a temporary mismatching of assets related to guarantees for a specific universal life insurance product.

1997 compared with 1996

Net income grew from \$59.9 million to \$65.4 million while the return on policyowners' equity declined from 14.86% to 14.04%.

Among the items having a positive impact on the Company's profitability in 1997, the most important are the good claims experience for both individual insurance and annuities, strong growth in funds under management in individual annuities and group annuities, and a better return on the assets supporting policyowners' equity.

Items that had a negative impact on the Company's profitability in 1997 include the strong growth of new sales, which resulted in an increase in expenses associated with new contracts, which should translate into a gain during the coming years. Unindal, the general insurance subsidiary, lost approximately three million dollars in 1997.

Period from 1994 to 1996

Net income grew from \$51.1 million in 1994 to \$59.9 million in 1996 while the return on policyowners' equity declined from 18.35% to 14.86%. Note that net income for 1994 includes \$3.7 million in unusual items and discontinued operations. The favourable change during this period is due to the continued growth in business, particularly of funds under management, the excellent insurance and health claims experience, tight control of general expenses, the merger with Solidarity, and the rates for new products generating lower expenses associated with new contracts. The year 1996 was difficult for the general insurance business, with a loss at the end of the year of approximately one million dollars.

Changes in Financial Position

A life insurer's financial position changes according to the changes in sources and uses of funds. The main sources of funds are premiums collected under insurance policies and annuity policies in force, proceeds from the sale or repayment of investments, income collected on the investment portfolio and other income made up principally of management fees for segregated funds. Company funds are primarily used for claims paid under policies including annuities and cash surrender values, the purchase of new investments, mortgage loans granted, the net transfer from the general fund to segregated funds, the payment of dividends to policyowners and the payment of operating expenses, including income and other taxes.

The following table summarizes the changes in the Company's consolidated financial position for the periods indicated.

Consolidated Summary of Changes in Financial Position

	Six months ended June 30		Years ended December 31				
	1999 (unaudited)	1998	1998	1997	1996	1995	1994
(in millions of dollars)							
Net inflow (outflow) of cash related to the following activities							
Operating	136.3	79.3	260.7	(56.4)	87.5	275.0	171.3
Investing	(282.5)	(90.7)	(78.0)	92.3	(167.2)	(221.2)	(274.6)
Financing	<u>149.1</u>	<u>(0.9)</u>	<u>(1.9)</u>	<u>(1.8)</u>	<u>22.8</u>	<u>(2.0)</u>	<u>64.8</u>
Increase (decrease) in cash.....	2.9	(12.3)	180.8	34.1	(56.9)	51.8	(38.5)
Cash position at the beginning of the period	<u>328.7</u>	<u>147.9</u>	<u>147.9</u>	<u>113.8</u>	<u>170.7</u>	<u>118.9</u>	<u>157.4</u>
Cash position at the end of the period	<u>331.6</u>	<u>135.6</u>	<u>328.7</u>	<u>147.9</u>	<u>113.8</u>	<u>170.7</u>	<u>118.9</u>

June 1999 compared with June 1998

Operating activities for the six months ended June 30, 1999 show a net cash inflow of \$136.3 million compared with a net inflow of \$79.3 million in 1998. This increase was achieved despite the level of claims in the group insurance segment and is due principally to lower demand for transfers from the general fund to segregated funds and to a significant increase in insurance premium and investment income.

Net cash used in investing activities is higher than in 1998 by \$191.8 million. Of this strong increase, \$179.5 million represents the cash used for the acquisition of Seaboard net of the cash received on the sale of the two affiliated companies. The balance stems mainly from a decrease in share investments and an increase in bond investments.

In order to finance the acquisition of Seaboard, a \$75 million subordinated debenture and \$75 million of preferred equity securities were issued in the first half of 1999.

1998 compared with 1997

Net inflows of cash from operations rose by \$317.1 million, from a net outflow of cash of \$56.4 million in 1997 to a net inflow of \$260.7 million in 1998. This significant increase is primarily attributable to strong growth in premium income, both for insurance and for annuities, a decrease in the net transfer from the general fund to segregated funds, and better claims experience.

Funds from investment activities increased by \$170.3 million in 1998. In 1997, these activities represented an inflow of \$92.3 million, primarily attributable to the sale of securities to meet the demand for transfers from the general fund to segregated funds. In 1998, the Company recorded a net outflow of \$78.0 million, reflecting the use of a portion of the inflow from operating activities. The balance of the inflow from operating activities helped increase the cash balance to \$328.7 million in order to meet potential funding requirements in connection with the acquisition of Seaboard.

1997 compared with 1996

Operating activities in 1997 show a net outflow of funds totalling \$56.4 million, while those for 1996 present a net inflow of \$87.5 million, or a change of \$143.9 million. Inflows of funds related to premium income increased by some \$510.8 million, or \$1.64 billion in 1997 compared with \$1.13 billion in 1996. However, the net transfer from the general fund to segregated funds along with a higher claims level than in 1996 produced significant outflows of funds which, when combined with the increase in commissions paid and other operating expenses, more than offset the inflows from operating activities.

The change in portfolios reflects a sale that permitted the inflow of funds required for the net transfer from the general fund to segregated funds due to continued customer interest in investments with potential growth in value.

With regard to the Company's financing activities, 1996 was marked by the public issue of a subordinated debenture totalling \$50.0 million. Also, the sum of \$27.2 million was used to repay a loan secured by real estate held as an investment.

Period from 1994 to 1996

During the period from 1994 to 1996, the Company's operating activities resulted in a decrease of \$83.8 million in the net inflow of funds. Premium income rose by \$43.4 million, investment income increased by \$39.2 million, claims incurred and transfers from the general fund to segregated funds increased by \$95.3 and \$67.7 million, respectively. These changes and the net change related to management fees for segregated funds, commissions paid and operating expenses, including income and other taxes, explain the decrease in funds generated by operations.

The issuance of a \$50 million subordinated debenture in 1996 resulted in the acquisition of investments; however, the total increase in investments was less than during the previous year, primarily due to the fact that a significant amount was transferred to segregated funds. The year 1996 ended with outflows exceeding inflows by \$56.9 million. In 1995, the \$53.4 million decline in investment activities compared with 1994 is primarily attributable to the fact that, in 1994, the Company invested \$60 million in investment fund units using proceeds from the issuance of a debenture for the same amount.

In conclusion, the growth of funds from operations and a net inflow from financing activities resulted in additional investments, primarily in bonds, and an increase in available funds.

Liquidity and Cash Resources

Between 1994 and 1998, Industrial-Alliance issued \$110 million of capital in subordinated debentures. In February 1999, the Company issued \$75 million of subordinated debentures and \$75 million of preferred equity shares. Industrial-Alliance issued these securities to increase its capital. As at June 30, 1999, the Company had operating lines of credit totalling \$80.5 million, of which up to \$6 million is a revolving loan repayable on maturity. As at June 30, 1999, the Company's lines of credit were unused. The purpose of the lines of credit of the Company is to finance its operations and working capital requirements.

Consolidated Capitalization

The following table sets forth the consolidated capitalization of the Company as at June 30, 1999 and December 31, 1998, as well as the consolidated capitalization as at June 30, 1999, taking into consideration the conversion of Industrial-Alliance into a share capital company.

	As at June 30, 1999		As at December 31, 1998	
	Outstanding (unaudited)	Adjustments	Outstanding after giving effect to the conversion ⁽¹⁾	
(in millions of dollars, unless indicated otherwise)				
Debt:				
Mortgage loans, 9.25% to 11.375%, repayable through to 2002 ⁽²⁾	32.5	—	32.5	33.1
Subordinated debenture maturing in 2010 ⁽³⁾	60.0	—	60.0	60.0
Series 2 subordinated debenture maturing in 2006 ⁽⁴⁾	50.0	—	50.0	50.0
Series 3 subordinated debenture maturing in 2010 ⁽⁵⁾	75.0	—	75.0	—
Total debt	217.5	—	217.5	143.1
Currency translation account	9.1	—	9.1	12.7
Preferred equity securities ⁽⁶⁾	75.0	(75.0)	—	—
Policyowners' equity ⁽⁷⁾	609.4	(609.4)	—	570.5
Participating policies' equity	5.1 ⁽⁸⁾	38.0	43.1	—
Shareholders' equity				
Share capital				
Common shares	—	571.4	571.4	—
(authorized amount — 1,000)			(35 million shares)	
Preferred shares	—	75.0	75.0	—
(authorized amount — 250)			(3 million shares)	
Total shareholders' equity	—	646.4	646.4	—
Total capitalization	916.1	—	916.1	726.3
Debt to capital ratio	24.0%	—	24.0%	20.0%

(1) Information presented on a pro forma basis as at June 30, 1999, consistent with that presented in the pro forma consolidated financial statements included in this Guide. The costs of the conversion are estimated at \$17.8 million after income taxes, and will be paid out of Industrial-Alliance's general fund. These costs, which have not been reflected in the pro forma information above, will be accounted for as capital costs and charged directly to the Company's equity capital.

(2) Mortgage loans concern exclusively real estate held as an investment and mature progressively through to 2002.

(3) Subordinated debenture, bearing basic interest of 1.25% (1.75% in 1998 and prior years) and variable interest tied primarily to the return on the investment fund, redeemable at the option of Industrial-Alliance beginning in February 2004 or repayable on maturity in 2010. The subordinated debenture ranks on par with the series 2 and 3 debentures issued.

(4) Series 2 subordinated debenture, bearing interest at 8.40%, redeemable at the option of Industrial-Alliance beginning in June 2001 or repayable on maturity in 2006.

(5) Series 3 subordinated debenture, bearing basic interest of 6.25% plus variable interest of no more than 5.25%, subject to certain conditions, redeemable at the option of Industrial-Alliance beginning in February 2004 or repayable on maturity in 2010.

(6) Preferred securities will be converted into series 1 preferred shares upon the effective date of conversion. Refer to the section "Description of Share Capital and Subordinated Debentures".

(7) Excluding translation gains.

(8) Represents Seaboard's participating policies' account.

Description of Share Capital and Subordinated Debentures

Capitalization and Share Capital

As a mutual insurance company, the Company does not have any share capital and is held by all of its policyholders, namely the holders of insurance or annuity policies issued by it. The policyholders are entitled to elect all of the Company's directors, share in the Company's long term appreciation and share in any surplus upon dissolution of the Company.

Description of Share Capital after the Conversion

Upon Industrial-Alliance's conversion, its authorized share capital will consist of 100 million common shares without par value issuable for an aggregate consideration not exceeding \$1 billion, and of 10 million preferred shares (the "preferred shares") with a par value of \$25 each, issuable in series. The 3,000,000 preferred securities will be converted into series 1 preferred shares, so that on the effective date of the conversion, Industrial-Alliance's only outstanding shares will be common shares and 3,000,000 series 1 preferred shares.

On August 10, 1999 Industrial-Alliance has entered into an agreement with the sole holder of the preferred securities, whereby these preferred securities will be converted into series 1 preferred shares in the share capital of Industrial-Alliance. The rights, privileges, restrictions and conditions attaching to series 1 preferred shares are in all material respect similar to the rights, privileges, restrictions and conditions of the preferred securities, with the addition, however, of the possibility, in certain circumstances, of a conversion into series 2 preferred shares. Moreover, the holder of series 1 preferred shares will be entitled, in certain circumstances, on or after the sixth anniversary of the issue date of the series 1 preferred shares, to the payment of a redemption premium to reflect, if necessary, the excess of the market value over the par value.

Common Shares

The registered holders of common shares are entitled to receive such shareholder dividends as may be declared by the board of directors out of the funds duly reserved for the payment of shareholder dividends. The registered holders of common shares are entitled to receive a notice of and to attend to all shareholders' meetings of Industrial-Alliance, and may cast one vote per share held as registered holder at such meetings, except the meetings where the holders of another class or series of Industrial-Alliance's shares are entitled to vote separately as a class or series. Upon liquidation, dissolution or winding up of Industrial-Alliance, whether voluntary or involuntary, or any other distribution of its assets to its shareholders for the precise purpose of liquidating its business, registered holders of common shares are entitled to a pro rata share of Industrial-Alliance's residual assets after payment of all creditors and all preferred claims in connection with the liquidation, if any, and related to the shareholders. The common shares rank junior to the preferred shares with respect to shareholder dividends and the distribution of assets upon liquidation, dissolution or winding up of Industrial-Alliance, whether voluntary or involuntary, or with respect to any distribution of assets of Industrial-Alliance to its shareholders for the precise purpose of liquidating its business.

Preferred Shares

Industrial-Alliance's board of directors is authorized, subject to the limitations set forth by *An Act respecting insurance*, to issue 10 million preferred shares in one or more series, of which 3,000,000 series 1 preferred shares, 3,000,000 series 2 preferred shares and 3,000,000 series 3 preferred shares are authorized. Prior to issuing preferred shares of a series, Industrial-Alliance's board of directors will determine the number and the designation of the shares of such series and will determine the rights, privileges, restrictions and conditions attached to the preferred shares of such series. Each series of a particular class of preferred shares ranks *pari passu* with every other series of this class with respect to shareholder dividends and return of capital.

Preferred shares have preference over all the other shares in the share capital of Industrial-Alliance with respect to the payment of shareholder dividends and the distribution of assets in the event of liquidation, dissolution or winding-up of Industrial-Alliance, or with respect to any other distribution of assets of Industrial-Alliance to its shareholders for the precise purpose of liquidating its business.

Except when required by law or when the rights, privileges, restrictions and conditions attached to a series of preferred shares give voting rights to the holders of such series of preferred shares, holders of preferred shares are not entitled to receive notice of, nor to attend and nor to vote at any meeting of the shareholders of Industrial-Alliance. Preferred shares rank senior to common shares with respect to shareholder dividends and the distribution of assets in

the event of liquidation, dissolution or winding-up of Industrial-Alliance or with respect to any distribution of assets of Industrial-Alliance to its shareholders for the precise purpose of liquidating its business.

Preferred Shares, Series 1

The 3,000,000 outstanding preferred securities issued on February 12, 1999 are converted into 3,000,000 series 1 preferred shares, to which will be attached the following rights, privileges, restrictions and conditions, in addition to the rights, privileges, restrictions and conditions attached to preferred shares as a class:

Issue price. The issue price of each converted preferred security was twenty-five dollars (\$25), and each series 1 preferred share is deemed to have been issued for the same amount.

Dividends. The holders of series 1 preferred shares will be entitled to receive the following non-cumulative preferential dividends, when and if declared by the directors of Industrial-Alliance:

- until the end of an initial period of five (5) years starting February 12, 1999, an annual dividend of 1.00% of the issue price of the abovementioned shares, payable quarterly, the first quarter being the one in which the conversion takes place;
- for each of the five (5) subsequent years, and thereafter, for each of the years included in each subsequent five-(5) year period, the dividend rate will be the highest of the rates indicated hereinafter, calculated on the issue price of the said shares:
 - a) the annual interest rate, established on the fifteenth day of the month preceding the month in which each of the abovementioned five-(5) year periods begins, corresponding to the yield on 5-year Canada bonds (as this term is defined hereinafter), expressed as a percentage, plus 1.50%, payable quarterly;
 - b) the prime rate (as this term is defined hereinafter) of the National Bank of Canada (or any successor Canadian chartered bank) determined on the first day of each of the abovementioned five-(5) year periods, plus 1.50%, payable quarterly;
 - c) the dividend rate in effect during the previous five-(5) year period, payable quarterly.

Quarterly payments of said dividends will be paid on March 31, June 30, September 30 and December 31 of each year, with appropriate adjustment for any incomplete quarter.

No dividend may be declared and paid or set aside for payment at any time whatsoever during any of the fiscal years of Industrial-Alliance on or with respect to any other share in its capital stock ranking junior to the series 1 preferred shares, unless all the dividends accrued on all the preferred shares of the cumulative series have been declared and paid or set aside for payment and all the dividends declared on all the preferred shares of the non-cumulative series (including series 1) have also been paid or set aside for payment.

For the purpose of establishing the abovementioned dividend rates, the following terms will have the following meaning:

“Yield on 5-year Canada bonds” on any date refers to the yield to maturity on this date, compounded semi-annually, that a non-redeemable bond issued by the Government of Canada would bear if it were issued in Canadian dollars, in Canada, at 100% of its capital amount on such date with a term to maturity equal to approximately five (5) years, all as determined jointly by two major Canadian securities dealers selected from time to time by Industrial-Alliance from among the members of the Quebec division of the Investment Dealers Association of Canada or, if this association ceases to exist, another association selected by Industrial-Alliance and having the same members. In the event of any disagreement between the abovementioned dealers, the yield will be the arithmetical average (rounded to four decimals) of the percentage determined by each of the two dealers.

“Prime rate” means, with respect to any bank, the preferred rate this bank charges its Canadian customers for commercial loans in Canadian dollars as this rate may fluctuate from time to time.

Redemption. Subject to the provisions of the *Companies Act*, and with the prior approval of the Inspector General of Financial Institutions, Industrial-Alliance may, as of February 12, 2004, redeem any portion of the series 1 preferred shares not converted into common shares, at a price per share equal to twenty-five dollars (\$25), plus any declared and unpaid dividends.

When redeeming series 1 preferred shares, Industrial-Alliance will send a thirty-(30) day notice in writing to the holder or to his/her duly authorized representative. During this period, the holder may elect to exercise his/her right, if applicable, to exchange them for common shares. This notice will indicate the number of series 1 preferred shares Industrial-Alliance wishes to redeem, the date of redemption, the redemption price and the calculation method thereof. The price payable for the series 1 preferred shares to be redeemed by Industrial-Alliance shall be payable on the redemption date specified in the abovementioned redemption notice, and said redemption will be considered to have been accomplished on the date of the payment thus made. If only a portion of the series 1 preferred shares are redeemed, then any payment made to the holders will be accompanied by a new certificate representing any series 1 preferred shares not redeemed.

As of the date of payment, the preferred shares called for redemption will cease to entitle their holders to dividends, and their holders may no longer exercise the rights attached thereto, unless Industrial-Alliance omits to pay the redemption price upon presentation and submission of their certificates, in accordance with the foregoing provisions.

Any partial redemption will be made on a pro rata basis among the holders of all series 1 preferred shares outstanding at that time.

Exchange (conversion) privilege for common shares. Holders of series 1 preferred shares may exchange all or part of their series 1 preferred shares for common shares of Industrial-Alliance at a conversion price equal to 95% of the market value of said common shares, this market value being established and corresponding to the weighted average of the trading prices on The Montreal Exchange (or if the common shares are not listed on such exchange, on any other exchange on which said shares are listed) for said common shares during the fifteen (15) days preceding the date Industrial-Alliance receives the holder's notice of conversion and during which said common shares were bought or sold.

However, in the event of a public offering by Industrial-Alliance of its common shares, then the conversion price will be equal to the issue price of said common shares of Industrial-Alliance, provided that the notice of conversion is given by the holder or his/her duly authorized representative no later than forty-five (45) days after said public offering.

This exchange (conversion) right may be exercised on or after the first anniversary of the date on which the common shares are listed on The Montreal Exchange or, if the common shares are not listed on such exchange, on any other exchange on which said shares are listed, subject to approval by the particular stock exchange.

The abovementioned right of conversion will be limited to \$18,750,000 per year of the paid-up capital of the series 1 preferred shares, this minimum amount being cumulative as of the date on which such shares become convertible. However, for any conversion requested by the holder in any year, starting with the year in which the abovementioned preferred shares become convertible, the par value of said shares that can be converted for said year (subject to the right of accumulation abovementioned) will correspond to the portion of the abovementioned limit of \$18,750,000 that is equal to the number of days elapsed in the year on the date of the conversion notice, in relation to the number of days in the particular year. However, under no circumstances will the conversion of preferred shares into common shares result, either directly or indirectly, in conferring upon the holder thereof more than ten percent (10%) of the voting rights attached to the shares issued by Industrial-Alliance, including any shares already owned and any shares acquired upon the conversion.

To accomplish the conversion of shares provided for herein, a written notice signed by the holder or the holder's duly authorized representative must be presented or sent. Such notice will indicate the number of preferred shares that the holder wishes to convert. No later than twenty (20) days following receipt of this notice, Industrial-Alliance will proceed with the required verifications and will issue one or more certificates representing the number of common shares to which the holder is entitled as a result of the conversion. Unless (i) Industrial-Alliance gives the holder a notice of conversion into series 2 preferred shares (as provided for hereafter) or (ii) the holder gives Industrial-Alliance a notice of revocation (as provided for hereafter), the holder will be deemed to be the holder of the common shares required by the conversion and will thus have all the rights and privileges attached to these shares from the moment Industrial-Alliance receives the abovementioned written notice of conversion.

All the common shares resulting from the conversion of series 1 preferred shares will be deemed issued and paid.

Holders who gave a notice of conversion into common shares may, within the twenty (20) days following such notice, revoke such notice, provided that they have not yet received a notice of conversion into series 2 preferred shares ("revocation notice"). In the event of such revocation, the series 1 preferred shares subject to the notice of conversion

into common shares will be deemed not to have been converted, and the particular notice of conversion into common shares will have no effect.

Conversion into series 2 preferred shares. Subject to obtaining all the required authorizations beforehand (but without any need for additional letters patent), Industrial-Alliance may at any time convert the series 1 preferred shares, covered by a notice of conversion into common shares, into series 2 preferred shares. Such conversion will be made by means of a notice that Industrial-Alliance must give to the holder of the particular series 1 preferred shares no later than the 20th day following receipt of the notice of conversion into common shares. Industrial-Alliance may waive the conversion into series 2 preferred shares in writing prior to the end of the twenty-(20) day period, in which case Industrial-Alliance will issue one or more certificates representing the number of common shares to which the holder is entitled as a result of the conversion and the series 1 preferred shares will be deemed to have been exchanged (converted) on the date Industrial-Alliance receives the notice of conversion into common shares. The notice of conversion is irrevocable and applies to all the series 1 preferred shares mentioned in the notice of conversion into common shares. Consequently, if such a notice of conversion into series 2 preferred shares is given, the series 1 preferred shares subject to such notice will be deemed not to have been converted into common shares, and the particular notice of conversion into common shares will have no effect. There will be the same number of series 2 preferred shares as the series 1 preferred shares converted.

Unless the holder gives Industrial-Alliance a notice of cancellation (as described hereinafter), the holder will be deemed to be the holder of the series 2 preferred shares and will thus have all the rights, privileges and will be subject to all the restrictions and conditions attached to these shares from the moment the holder receives of the written notice of conversion into series 2 preferred shares.

All the series 2 preferred shares resulting from the conversion of series 1 preferred shares will be deemed issued and paid.

Series 2 preferred shares.

In addition to the rights, privileges, restrictions and conditions attached to preferred shares as a class, the 3,000,000 series 2 preferred shares have the following rights privileges, restrictions and conditions:

Restrictions on issue. The 3,000,000 series 2 preferred shares are issued only for the purposes of converting series 1 preferred shares into series 2 preferred shares. The series 2 preferred shares will be deemed to have been issued as soon as Industrial-Alliance, with the approval of the Inspector General of Financial Institutions, has given the applicable notice of conversion within the prescribed time period.

Issue price. Each series 2 preferred share is deemed to have been issued for the amount of twenty-five dollars (\$25).

Dividends. Holders of series 2 preferred shares are entitled to receive the following non-cumulative preferred dividends when and if declared by the directors of the Company:

- until the end of an initial five-(5) year period beginning on February 12, 1999, an annual dividend of 1.00% of the issue price of the abovementioned shares, payable quarterly, the first quarter being the one during which the conversion took place;
- for each of the five (5) subsequent years, and thereafter for each of the years included in each subsequent five-(5) year period, the dividend rate will be the highest of the rates indicated hereinafter, calculated on the issue price of the abovementioned shares:
 - a) the annual interest rate, established on the fifteenth day of the month preceding the start of each of the five-(5) year periods abovementioned, corresponding to the yield on 5-year Canada bonds (as this expression is defined hereinafter), expressed as a percentage, plus 1.50%, payable quarterly;
 - b) the prime rate (as this expression is defined hereinafter) of the National Bank of Canada (or any successor Canadian chartered bank) determined on the first day of each of the abovementioned five-(5) year periods, plus 1.50%, payable quarterly;
 - c) the dividend rate in force during the preceding five-(5) year period, payable quarterly.

Quarterly payments of said dividends will be made on March 31, June 30, September 30 and December 31 of each year, with appropriate adjustment for any incomplete quarter.

No dividend may be declared and paid or set aside for payment at any time whatsoever during any of the fiscal years of Industrial-Alliance on or with respect to any other share in its capital stock ranking junior to the series 2 preferred shares unless all the dividends accrued on all the preferred shares of cumulative series have been declared and paid or set aside for payment and unless all the dividends declared on all the preferred shares of non-cumulative series (including series 2) have also been paid or set aside for payment.

For the purpose of establishing the abovementioned dividend rates, the following expressions will have the following meaning:

“Yield on 5-year Canada bonds” on any date, means the yield to maturity on this date, compounded semi-annually, that a non-redeemable bond issued by the Government of Canada would bear if it were issued in Canadian dollars, in Canada, at 100% of its capital amount on such date with a term to maturity equal to approximately five (5) years, all as determined jointly by two major Canadian securities dealers selected from time to time by Industrial-Alliance from among the members of the Quebec division of the Investment Dealers Association of Canada or, if this association ceases to exist, another association selected by Industrial-Alliance and having the same members; in the event of any disagreement between the abovementioned dealers, the yield will be the arithmetic average (rounded to four decimals) of the percentage determined by each of the two dealers.

“Prime rate” means, with respect to any bank, the preferred rate this bank charges its Canadian customers for commercial loans in Canadian dollars, as this rate may fluctuate from time to time.

Redemption. The series 2 preferred shares can be redeemed at Industrial-Alliance’s option at a price per share equal to the issue price multiplied by 1.0526. However, series 2 preferred shares will be redeemed at the issue price if Industrial-Alliance has made a public offering within 45 days preceding the date of the notice of conversion into common shares that triggered the issue of the shares subject to redemption. In all cases, declared and unpaid dividends are added to the redemption price.

Redemption of the series 2 preferred shares must be made by Industrial-Alliance within two (2) business days of a notice of redemption given by Industrial-Alliance, and will be conditional to the issue by Industrial-Alliance, within such two-(2) day period, of new series 3 preferred shares fully paid in cash for the same amount as that to be paid to redeem the series 2 preferred shares covered by said notice of redemption. Such notice of redemption must be received by the holder no later than one (1) business day following receipt by the holder of the notice of conversion of series 1 preferred shares into series 2 preferred shares. Such notice will mention the redemption date and the method for calculating the redemption price. The price to be paid for the series 2 preferred shares will be payable on the redemption date set forth in the abovementioned notice of redemption (this date may not be more than two (2) business days after the notice) and such redemption will be deemed to have been completed on the date payment is effectively made. However, if Industrial-Alliance does not give the holder a notice of redemption or does not pay the redemption price within the prescribed time periods, the holder may give Industrial-Alliance a notice of cancellation indicating that he/she wishes to cancel the notice of conversion into common shares or, at his/her option, force the conversion into common shares on the date of the notice of conversion into common shares (the “notice of cancellation”).

As of the date of payment, the series 2 preferred shares thus redeemed will cease to entitle their holders to dividends, and their holders may no longer exercise the rights attached thereto except in the event Industrial-Alliance omits to pay the redemption price.

Series 3 preferred shares

In addition to the rights, privileges, restrictions and conditions attached to preferred shares as a class, the 3,000,000 series 3 preferred shares have the following rights, privileges, restrictions and conditions:

Issue price. The issue price of each of the series 3 preferred shares will be twenty-five dollars (\$25).

Redemption. Subject to the provisions of the *Companies Act* and with the prior authorization of the Inspector General of Financial Institutions, Industrial-Alliance may, beginning on the 5th anniversary of the date of their issue, redeem the portion of series 3 preferred shares not converted into common shares at a price equal to twenty-five dollars (\$25) per share, plus any declared and unpaid dividends.

To accomplish the redemption of said series 3 preferred shares, Industrial-Alliance will send a two-(2) day written notice to the holder or his/her duly authorized representative. Such notice will mention the number of series 3 preferred shares that Industrial-Alliance wishes to redeem, the redemption date and the price to be paid for such shares, as well as its basis of calculation. The price to be paid for the series 3 preferred shares thus redeemed by Industrial-Alliance will

be payable on the redemption date set forth in the abovementioned notice of redemption, and this redemption will be deemed to have been made on the date payment is effectively made. If only a portion of the series 3 preferred shares are redeemed, the payment made to the holders must be accompanied by a new certificate representing the series 3 preferred shares not redeemed.

As of their date of payment, the preferred shares called for redemption will cease to entitle their holders to a dividend, and their holders may not longer exercise the rights attached thereto, unless Industrial-Alliance omits to pay the redemption price, upon presentation and delivery of their certificates in accordance with the provisions hereinabove.

Any partial redemption will be made on a pro rata basis among the holders of all the series 3 preferred shares outstanding at the time.

Exchange (conversion) privilege into commons shares. Holders of series 3 preferred shares may exchange all or part of their series 3 preferred shares for common shares of Industrial-Alliance at a conversion price equal to the market value of said common shares, such market value being established and corresponding to the weighted average of trading prices on The Montreal Exchange (or if the common shares are not listed on such exchange, on any other exchange on which said shares are listed) for said common shares during the thirty (30) days preceding the date Industrial-Alliance receives the holder's notice of conversion and during which said common shares were bought or sold.

This exchange (conversion) right may be exercised beginning on the 5th anniversary of their issue date.

To accomplish the exchange of shares provided for herein, a seven-(7) day written notice signed by the holder or his/her duly authorized representative must be presented or sent. Such notice will mention the number of preferred shares that the holder wishes to exchange. At the end of the exchange (conversion) period provided for and if Industrial-Alliance has not issued a notice of redemption, Industrial-Alliance will proceed with the required verifications and will issue one or more certificates representing the number of common shares to which the exchange (conversion) entitles the holder. The holder will be deemed to be the holder of the common shares required by the exchange (conversion), and will thus have the rights and privileges attached to these shares once Industrial-Alliance receives the abovementioned written notice of exchange (conversion).

All the common shares resulting from the conversion of series 3 preferred shares will be deemed issued and paid.

Subordinated Debentures

Industrial-Alliance has the following subordinated debentures outstanding: a first series, in the amount of \$60 million, bears a basic interest rate of 1.25% per annum and a variable interest rate tied primarily to the return of an investment fund, redeemable at the option of Industrial-Alliance beginning on February 12, 2004, and maturing on January 24, 2010; series 2 subordinated debentures, in the amount of \$50 million, bearing interest at the rate of 8.40% per annum, redeemable at the option of Industrial-Alliance beginning on June 19, 2001, and maturing on June 19, 2006; and series 3 subordinated debentures, in the amount of \$75 million, bearing a basic interest rate of 6.25% plus a maximum variable interest of 5.25% subject to certain conditions, redeemable at the option of Industrial-Alliance beginning on February 12, 2004, and maturing on January 24, 2010.

Capital Adequacy Rules

The IGFI establishes the rules to determine the minimum amounts of continuing capital that a Québec insurance company must maintain in order to provide further assurance of its future creditworthiness. The Superintendent of Financial Institutions (Canada) ("Superintendent") establishes the rules to determine the minimum amounts of continuing capital that a federal insurance company must maintain in order to provide further assurance of its future creditworthiness. The minimum required capital prescribed by the IGFI and the Minimum Continuing Capital and Surplus Requirements ("MCCSR") required by the Superintendent are comparable. The guidelines related to the minimum required capital determine the amount of capital that Industrial-Alliance is required to maintain with respect to its operations ("required capital") and the amount of capital available to it to meet its needs ("available capital").

Required Capital

The guidelines related to the minimum required capital explain in detail the formula used to determine an appropriate capital margin based on the activities of a life and health insurance company. A margin of this type is deemed necessary to provide for any contingencies. Any foreseeable risk must be covered by provisions for future benefits and by a special reserve established by the Company. The risk profile comprise three large categories: risk of

default, interest rates risk and risk related to insurance (mortality, morbidity and lapses). The following table presents Industrial-Alliance's capital requirements for the periods indicated based on the guidelines.

Required Capital

	As at June 30, 1999	As at January 1, 1999 ⁽¹⁾	As at December 31, 1998
		(in millions of dollars)	
Risk of assets default	195.7	182.7	147.1
Interest rate risk	102.3	100.8	91.6
Insurance risk (mortality, morbidity and lapse)	161.4	148.1	123.1
Total required capital	<u>459.4</u>	<u>431.6</u>	<u>361.8</u>

(1) Includes the acquisition of Seaboard

Available Capital

The guidelines were conceived so that only equity capital with a sufficiently long maturity is considered to be available capital. The following table presents Industrial-Alliance's available capital for the periods indicated.

Available Capital

	As at June 30, 1999	As at January 1, 1999 ⁽¹⁾	As at December 31, 1998
	(unaudited)	(in millions of dollars)	
Policyowners' equity	614.5	575.5	570.5
Perpetual non-cumulative preferred securities	75.0	75.0	
Subordinated debentures	185.0	185.0	110.0
Net gains realized and deferred on disposition of investments	49.6	48.9	48.9
Non-amortized, unrealized net gains on widely traded transferable securities	5.5	11.3	11.3
Investments in companies other than life insurance companies	(1.5)	(9.9)	(9.9)
Goodwill	(39.7)	(50.3)	(18.0)
Other adjustments ⁽²⁾	<u>(55.9)</u>	<u>(63.7)</u>	<u>(53.3)</u>
Available capital	<u>832.5</u>	<u>771.8</u>	<u>659.5</u>
Required capital	459.4	431.6	361.8
Available capital/required capital ratio	181.2%	178.8%	182.3%

(1) Includes the acquisition of Seaboard and the issue of \$150 million of additional capital.

(2) Represent other adjustments prescribed by the IGFI guidelines.

Calculated according to the standards of the regulatory authorities, Industrial-Alliance's available capital/required capital ratio, which is one of the most commonly used methods for measuring the financial strength of insurance companies, was 182.3% as at December 31, 1998, and 181.2% as at June 30, 1999. This ratio largely surpasses the requirements of the regulatory authorities. The Company's objective is to maintain a ratio between 175% and 200%.

Additionally, the quality of the Company's investments remains excellent and is higher than the industry average. Non-performing investments represent as at June 30, 1999 only 0.36% of its investments, the lowest rate since 1990.

Policyholder Dividends

The board of directors adopted an official policy concerning policyholder dividends in order to determine the amount of dividends paid on participating policies. This policy describes the basis of the method used to determine the total amount of policyholder dividends to be distributed. Before declaring policyholder dividends, the board of directors must receive a report from the appointed actuary confirming that the amount and the method of distribution

are in accordance with the requirements of Industrial-Alliance's policyholder dividend policy and that they comply with the standards of the Canadian Institute of Actuaries.

The amounts distributed are based on the annual actuarial gains realized or anticipated by participating policies and take into account the technical results, expenses and return on investments of each category of policy. In 1998, 1997 and 1996, Industrial-Alliance paid \$23.7 million, \$23.1 million and \$24.8 million in policyholder dividends respectively.

Upon conversion of Industrial-Alliance into a share capital company, the Company intends to continue paying policyholder dividends to holders of participating policies in the same way as before the conversion in accordance with the policy to be adopted at the time of conversion.

To determine the amount of policyholder dividends, the amounts available is obtained from the difference between the Company's results for a category of policy and the assumptions on which the premiums and the other elements of the policies of this category were based.

Participating policies are grouped by category according to the contribution method recognized by the Canadian Institute of Actuaries. Grouping the policies this way makes it possible to treat similar contracts in the same way and comply with the objective of equity.

The board of directors' adoption of such policyholder dividend policy allows the Company to meet the legitimate expectations of owners of participating policies by maintaining the method followed to determine the level of policyholder dividends.

Shareholder Dividends

Shareholder dividends may be declared at the option of the board of directors depending on the financial results projected, the financial condition of the Company, cash flow requirements and the need to establish balance between shareholders' desire to receive shareholder dividends and the capital required by Industrial-Alliance to sustain its operations. Industrial-Alliance intends to pay shareholders annual shareholder dividends comparable to those paid by other North American insurance companies. All shareholder dividends declared will be paid by Industrial-Alliance out of the surplus account.

Regulatory Environment

In Canada, life and health insurance is subject to regulations at the federal and provincial levels. These two levels of government regulate insurers on credit worthiness and corporate governance, on the basis of the jurisdiction of incorporation and the provincial jurisdictions in which they carry on the insurance business.

The provinces have particularly exclusive jurisdiction over matters such as contracts, sales and marketing of insurance and annuities products, and the licensing of insurers, agents and insurance brokers.

Industrial-Alliance is regulated by the government of Québec, while National Life and North West Life are regulated by the federal government. All three are also regulated by the governments of the provinces and territories in which they carry on their business. In the United States, the activities of North West Life are governed by the states in which they carry out their business.

Québec

In 1990, the government of Québec amended *An Act respecting insurance* in order to restrict the investments insurance companies can make in their subsidiaries, to control transactions between interested parties, to avoid conflicts of interest, to liberalize the rules governing ownership of Québec insurance companies, to allow the adoption of new capital standards and to extend the powers of the IGFI, the government authority responsible for enforcing *An Act respecting insurance*. The requirements relating to the adequacy of equity capital became effective in 1994. These changes were adopted to harmonize the regulations ratified under *An Act respecting insurance* with federal legislation, particularly the capital standards of the IGFI and the Superintendent. *An Act respecting insurance* prohibits the allotment or transfer registration of shares which confer to any person the ownership of more than 10% of the voting shares of a Québec insurance company, unless the Minister of Finance of Québec has given his approval. Variable capital individual insurance and annuity products, as well as the underlying segregated funds, are subject to the guidelines adopted by the Canadian Council of Insurance Regulators and incorporated by reference into the provincial

regulations governing insurance. These guidelines govern a certain number of issues relating to the underwriting of these products and the administration of the underlying segregated funds.

Federal

In 1992, new laws governing federal financial institutions became effective, particularly in order to eliminate the barriers existing at the time between the various financial pillars and to strengthen the Superintendent's powers by granting him, among other things, the authority to intervene earlier when a financial institution is in difficulty. This reform expanded the powers of insurance companies by allowing them to offer a broader range of financial products. These new powers allow insurance companies to offer, through subsidiaries and networks, banking and trust products, mutual funds and real estate broker services and investment advices. Insurance companies were also given the power to own a bank under appendix II of the *Bank Act* (Canada). Likewise, banks were given the authority to own an insurance company, but were not authorized to sell insurance products in their branch offices. This prohibition was upheld by the Canadian Minister of Finance in the federal budget of March 1996, and in the strategic framework for the reform of the Canadian financial services sector, published on June 25, 1999.

The strategic framework for the reform of Canadian financial services sector published by the Canadian Minister of Finance also proposed a new definition of "widely held," which would allow an investor to own up to 20% of a class of shares with voting rights and up to 30% of a class of shares without voting rights in a recently demutualized life and health insurance company. Additionally, two years after the demutualization, a newly demutualized life and health insurance company whose equity is between 1 and 5 billion dollars would be allowed to ask the Canadian Minister of Finance for permission to be a "closely held" company. Under these circumstances, "closely held" means that a single person may own up to 65% of the shares with voting rights of a life and health insurance company, provided that the remaining 35% of shares with voting rights are issued to the public. After this two-year transition period, only traditional mutual life and health insurance companies with equity in excess of \$5 billion will be required to have a large number of shareholders. The Minister of Finance (Canada) also declared that he would not approve merger proposals between large demutualized insurance companies during this two-year period.

Capital Requirements

The IGFI and the Superintendent require an insurer to maintain a sufficient level of capital for its operations. According to the capital standard, each insurer must maintain sufficient capital based on the risk profile of its balance sheet, its insurance and annuities operations and its off-balance sheet operations. The risk profile includes three major categories : asset default risk, interest rate risk and insurance risk (mortality, morbidity and lapses). The amount of capital is equal to the sum of the requirements for each of the three categories. The IGFI and the Superintendent compare the amount of required capital with the available capital, and this information, combined with other considerations, allows them to assess the financial strength of each insurer. They may modify the capital requirement at any time in order to reflect other risks, such as the risk related to the exchange rate or even to adjust the standard according to recent experience. See "Required Capital" in this chapter.

Category of Capital

The capital available to ensure the financial strength of an insurance company is determined according to three characteristics, namely: its permanence, the absence of compulsory fixed expenses and subordination to the rights of the policyholders and other creditors.

The capital standard divides the instruments into category 1 and category 2; each category is subject to deductions, adjustments and limitations.

Category 1 capital, or invested capital, includes, for a mutual life and health insurance company, (i) its total surplus, net of a certain surplus that is part of category 2, adjusted by certain realized but non-amortized gains and losses and (ii) its eligible non-cumulative preferred equity securities.

Category 2 capital consists of additional capital. Certain category 2 instruments are limited in duration, include a maturity longer than five years and are subordinated to liabilities relating to insurance policies and annuity policies and to other creditors. Category 2 capital may not exceed 100% of the category 1 capital, and limited duration category 2 capital may not exceed 50% of category 1 capital. An insurer's available capital is equal to the total of categories 1 and 2.

Investments

Canadian insurers must make their investments or lend funds according to the “prudent and reasonable person” standard, subject to other additional requirements related to limits and types of investments. Additionally, according to *An Act respecting insurance*, insurance companies governed by Québec law must comply with the limits established per issuer and for each type of investment.

Canadian Life and Health Insurance Compensation Corporation (“COMPCORP”)

COMPCORP is a private company created by the life and health insurance of Canada industry in 1998. If an insurer becomes insolvent, it protects policyholders against the loss of their benefits up to certain maximum amounts. It is financed by its members, and membership is required to carry out life and health insurance operations in Canada.

Each member insurance company may be called upon to pay a contribution according to the following orders: up to 0.5% of the average for five years of annual premiums from life and health insurance in the form of annual cash contributions; up to 3% of the average for five years of annual premiums from life and health insurance in the form of cash advances or repayable loans; and an amount relating to the administrative costs incurred by COMPCORP.

Directors and Officers

Industrial-Alliance’s directors are elected for a three-year term. Every year, the terms of approximately the same number of directors expire, and vacancies must be filled, so that one-third of the directors’ terms expire each year. The names, municipalities of residence, position within Industrial-Alliance, principal occupation and the term of office of each of the directors is indicated below:

<u>Name and municipality of residence</u>	<u>Principal occupation</u>	<u>Director since</u>	<u>Term expires</u>
FRANCESCO BELLINI ⁽⁴⁾ Town of Mount Royal (Québec)	Chief Executive Officer BioChem Pharma Inc. (Pharmaceutical products manufacturer)	February 1998	March 2001
LOUIS BERNARD ^{(1),(3)} Outremont (Québec)	President Louis Bernard Consultant Inc. (Lawyer)	March 1999	March 2002
PIERRE BRODEUR ⁽⁵⁾ Saint-Bruno (Québec)	President and Chief Executive Officer SICO Inc. (Director)	January 1999	March 2001
YVON CHAREST ⁽¹⁾ Sainte-Foy (Québec)	President and Chief Operating Officer of Industrial-Alliance	May 1999	March 2002
ANNE DUTIL BOURQUE ⁽³⁾ Saint-Georges-de-Beauce (Québec)	President Placements Lacroix Dutil, inc. (Investment firm)	February 1996	March 2002
RAYMOND GARNEAU ^{(1),(2),(4)} Westmount (Québec)	Chairman of the Board and Chief Executive Officer of Industrial-Alliance	December 1988	March 2001
MICHEL GERVAIS ⁽³⁾ Sillery (Québec)	President, Commission des universités sur les programmes	January 1997	March 2000
JOHN E. HOUGHTON ⁽⁵⁾ St. Catharines (Ontario)	Chairman of the Board Milltronics Ltd. (Instrumentation manufacturer)	November 1995	March 2000
LISE LACHAPELLE ^{(1),(4)} Westmount (Québec)	President and Chief Executive Officer Canadian Pulp and Paper Association (Voluntary regrouping of pulp and paper companies)	May 1995	March 2000
GILLES LAROCHE ^{(1),(4),(6)} Rimouski (Québec)	Chairman of the Board Le Groupe QuébecTel inc. (Telecommunications company)	November 1994	March 2002

<u>Name and municipality of residence</u>	<u>Principal occupation</u>	<u>Director since</u>	<u>Term expires</u>
ANDRÉA LATULIPPE ^{(2),(5),(6)} Saint-Benoît, Beauce county (Québec)	Advisor to the Chairman of the Board of Industrial-Alliance	February 1996	March 2001
JOHN LEBOUTILLIER ^{(1),(2)} Montréal (Québec)	President and Chief Executive Officer Iron Ore Company of Canada (Iron ore mining and processing)	May 1997	March 2002
JEAN MARIER ⁽²⁾ Sainte-Foy (Québec)	Partner Desjardins Ducharme Stein Monast (Barristers and Solicitors)	February 1978	March 2000
DAVID R. PETERSON Toronto (Ontario)	Partner Cassels, Brock & Blackwell (Barristers and Solicitors)	March 1991	March 2000
GUY SAVARD ^{(1),(3)} Outremont (Québec)	Vice Chairman and Chairman Québec Operations, Merrill Lynch Canada Inc. (Investment dealer)	May 1995	March 2002
DONALD J. SAVOIE ⁽²⁾ Moncton (New Brunswick)	Professor-Clément-Cormier Chair, Moncton University	August 1997	March 2001

(1) Executive Committee

(2) Investment Committee

(3) Audit Committee

(4) Human Resources Committee

(5) Ethics Committee

(6) Vice Chairman of the Board of Directors

During the past five years, all the above-mentioned directors fulfilled management functions in the same companies or their affiliates, except for: Mr. Louis Bernard who, prior to August 1998, was Executive Vice President, Administration and Secretary of the Banque Laurentienne du Canada; Mr. Pierre Brodeur who, prior to December 1996, was President of Weston Bakeries; Mr. Michel Gervais who, prior to May 1997, was president of Laval University; Mr. John E. Houghton who, prior to March 1996, was Chairman of the Board of Corporation Quno Inc.; Mr. John LeBoutillier, who, prior to December 1996, was President and Chief Executive Officer of Sidbec-Dosco (Ispat) Inc.; and Mr. Guy Savard who, prior to February 1995, was President and Chief Operating Officer of the Caisse de dépôt et placement du Québec.

Industrial-Alliance policyholders have the right to elect all the directors, approve the by-laws, and, in general, approve changes in the structure of Industrial-Alliance. After the conversion, these corporate governance rights will be exercised exclusively by the shareholders of Industrial-Alliance; owners of participating policies will be able to elect one-third of the members of the board of directors of Industrial-Alliance.

The following table presents, for each of the executive officers, the name and the municipality of residence, the current position the date he or she joined Industrial-Alliance.

<u>Name and municipality of residence</u>	<u>Current position</u>	<u>With the Company since</u>
RAYMOND GARNEAU Westmount (Québec)	Chairman of the Board and Chief Executive Officer	January 1989
YVON CHAREST Sainte-Foy (Québec)	President and Chief Operating Officer	June 1979
NORMAND PÉPIN Québec (Québec)	Executive Vice President, Life Insurance Subsidiaries and Vice President and General Manager, Individual Insurance and Annuities	June 1973

<u>Name and municipality of residence</u>	<u>Current position</u>	<u>With the Company since</u>
YVON CÔTÉ Charny (Québec)	Vice President and General Manager, Finance and Investments	May 1969
MARCEL GAGNÉ Sainte-Foy (Québec)	Vice President and General Manager, Group Insurance and Annuities	November 1985
ANDRÉA LATULIPPE Saint-Benoît, Beauce County (Québec)	Advisor to the Chairman of the Board	November 1987
MICHEL SANSCHAGRIN Sillery (Québec)	Vice President and General Manager, Actuarial and Audit	July 1997
GEORGES SMITH Sillery (Québec)	Vice President and General Manager, Corporate affairs and Secretary of the Company	January 1971
MICHEL GAUTHIER Cap-Rouge (Québec)	Vice President, Individual Insurance and Annuities	May 1969

All the executive officers of the Company have occupied their current position, or have assumed other management duties in the Company or in one or more of its subsidiaries for at least five years, except for Mr. Michel Sanschagrín who, prior to 1997, was Chairman of the Commission administrative des régimes de retraite et d'assurance du Québec ("CARRA").

Executive Compensation

The following table is a summary of the compensation paid to the Chairman of the Board and Chief Executive Officer and the four most highly compensated executive officers (the "Named Executive Officers").

<u>Name and principal occupation</u>	<u>Year</u>	<u>Annual compensation⁽¹⁾</u>			<u>Other compensation⁽⁴⁾</u>
		<u>Base salary</u>	<u>Bonus⁽²⁾</u>	<u>Other⁽³⁾</u>	
		(\$)	(\$)	(\$)	(\$)
RAYMOND GARNEAU ⁽⁵⁾ Chairman of the Board and Chief Executive Officer	1998	450,008	325,000	2,971	16,861
	1997	410,020	300,000	3,570	17,742
	1996	378,040	150,000	1,823	18,206
Industrial-Alliance					
VINCENT P. TONNA President and Chief Operating Officer	1998	254,500	121,218	11,055	19,534
	1997	244,700	116,540	8,312	19,428
	1996	238,400	110,000	8,882	18,386
National Life					
YVON CHAREST ⁽⁶⁾ President and Chief Operating Officer	1998	230,672	115,779	11,381	5,549
	1997	203,944	94,377	10,996	5,352
	1996	166,301	55,954	10,142	5,053
Industrial-Alliance					
JOHN GILL President and Chief Executive Officer	1998	243,917	78,105	7,175	16,692
	1997	236,747	58,600	9,662	16,156
	1996	229,900	61,000	7,502	15,109
North West Life of Canada and North West of America					
NORMAND PÉPIN Executive Vice President, Life Insurance	1998	201,760	103,790	11,852	7,770
	1997	189,644	88,575	10,798	7,514
	1996	168,875	53,411	10,593	7,073
Subsidiaries and Vice President and General Manager, Individual Insurance and Annuities					
Industrial-Alliance					

(1) Annual compensation does not include compensation as a Director.

(2) The bonus is established according to a predetermined formula and is paid in cash during the first three months of the following year. This amount includes the preceding year's attendance bonus and incentive bonus.

(3) Other annual compensation includes the use of an automobile and other taxable benefits: subsidized meals, subsidized parking, service anniversary bonus.

(4) Other compensation includes life insurance premiums and other benefits paid by the employer in the group insurance plan, the employer's contribution to a defined benefit pension plan and the employer's contribution to an employee savings plan.

(5) Mr. Raymond Garneau ceased to hold the position of President of the Company on March 29, 1999.

(6) Mr. Yvon Charest became President of the Company on March 29, 1999.

Retirement Plan for the Named Executive Officers

The Named Executive Officers of the Company participate in the Company's registered pension plan and qualify for supplemental retirement annuities amounts under the Company's supplemental pension plan. These two plans are defined benefit plans.

The annuity under these two plans is calculated on the basis of a maximum of 2% of the average salary (within the meaning of these plans) for the best five years of the ten-year period immediately preceding retirement, multiplied by the number of credited years of service. The form of annuity under the plan is a joint life annuity reduced to 66⅔% upon first death.

The annual retirement annuity provided for under the registered pension plan is limited to \$1,722 for each credited year of service. The annual retirement annuity payable under the supplemental pension plan is calculated according to the formula described below, less the annuity payable under the registered pension plan.

Retirement Annuities Payable

Salary⁽¹⁾	Years of service				
	5	10	20	30	35
\$200,000.....	\$ 20,000	\$ 40,000	\$ 80,000	\$120,000	\$140,000
250,000.....	25,000	50,000	100,000	150,000	175,000
300,000.....	30,000	60,000	120,000	180,000	210,000
350,000.....	35,000	70,000	140,000	210,000	245,000
400,000.....	40,000	80,000	160,000	240,000	280,000
450,000.....	45,000	90,000	180,000	270,000	315,000
500,000.....	50,000	100,000	200,000	300,000	350,000
600,000.....	60,000	120,000	240,000	360,000	420,000
700,000.....	70,000	140,000	280,000	420,000	490,000
800,000.....	80,000	160,000	320,000	480,000	560,000

(1) Average of the salaries for the best five years of the ten-year period immediately preceding retirement.

On December 31, 1998, Mr. Garneau had 9.92 years of credited service, Mr. Tonna had 16.67 years, Mr. Charest had 17.00 years, Mr. Gill had 20.10 years and Mr. P  pin had 25.56 years.

Directors' Compensation

Each director receives an annual compensation of \$8,000 for his services in such capacity, plus \$1,000 for each board or board committee meeting attended, except for directors who are executive officers of the Company, who do not receive any compensation for attending board committee meetings. Each board committee chairman receives an additional compensation of \$2,000 per year. Directors are also entitled to reimbursement for expenses incurred in connection with attending board or board committee meetings.

No Special Compensation is Linked to Conversion

The directors, officers and employees of Industrial-Alliance will not receive any special compensation for the conversion of Industrial-Alliance. However, if they are eligible members, they are entitled to receive common shares or a cash amount.

Compensation Policies

The policies for compensating directors and officers of Industrial-Alliance are determined by the Company's board of directors upon the recommendation of the board's Human Resources Committee. In general, the Company's policies are designed to pay compensations comparable to those paid in the life and health insurance industry. Industrial-Alliance participates in various surveys on compensation and uses occasionally outside consultants in order to ensure that its position is fairly assessed with respect to the industry.

Officers of Industrial-Alliance receive a basic compensation and a set of employment benefits comparable to those generally paid in the industry. Senior management has an annual bonus plan based on individual performance and

Industrial-Alliance's results. The Company has no long-term incentive plan, and senior officers do not have special employment contracts, except for one officer formerly employed by a merged company who is entitled to prior notice in the event his employment is terminated.

Board Committees

The board of directors of Industrial-Alliance carries out its duties itself, as well as through five committees. Each committee is authorized to use outside consultants as needed.

The Executive Committee exercises all of the directors' powers, except those that are reserved by law for the board of directors. The Executive Committee is comprised of the chairman of the board and chief executive officer, the president and chief operating officer and four directors unrelated to the Company. In 1998, the Executive Committee held five meetings.

The Audit Committee examines, among other things, the Company's annual and quarterly financial statements and the financial information that is periodically released. It reviews the different accounting policies and any changes that are proposed thereto. It ensures the integrity of the Company's internal control and information management systems. It reviews the external auditor's auditing plan and annually receives the internal auditor's report. The committee may entrust the internal auditor with specific mandates. The Audit Committee is comprised of four directors unrelated to the Company. The Audit Committee of Industrial-Alliance met six times in 1998.

The Investment Committee develops and recommends to the board the Company's investment policies and exercises the investment powers that are delegated to it by the board. It periodically reviews the investment transactions made by the Company, ensures the quality of the matching of assets and liabilities and the follow-up on the management of investments and specific assets in default or restructured. The Investment Committee is comprised of five directors, two of which are executive officers. Industrial-Alliance's Investment Committee met nine times in 1998.

The Ethics Committee reviews transactions carried out with related individuals and companies according to the rules adopted by the committee under *An Act respecting insurance*. It advises the board of directors on the competitive or advantageous character of certain transactions between related companies or with associates of the Company, and it is the only committee whose mandate, on occasion, could take precedence over the powers of the board. The Ethics Committee is comprised of three directors, two of whom are unrelated to the Company. The Ethics Committee of Industrial-Alliance held two meetings in 1998.

The Human Resources Committee examines and recommends to the board the appointment and compensation of the senior officers, including bonus plans, compensation policies, succession planning and the assessment of the overall performance of the senior officers. It also recommends the names of candidates for directors' positions. The Human Resources Committee is comprised of three directors unrelated to the Company and the chairman of the board and chief executive officer. The Human Resources Committee of Industrial-Alliance held three meetings in 1998.

Year 2000

The Company is highly dependent on information systems in the exercise of its various activities, including for the transfer of financial data and other information with clients, suppliers and other third parties. The Company also uses third party softwares and information systems. The Company recognizes the importance of the year 2000 issue for its business, which issue might affect most of computer users. Accordingly, the Company has made every effort to ensure a problem-free transition to the new millennium.

The potential risk of the year 2000 issue arises from the fact that computers might not be able to interpret "00" as year 2000, but rather consider it as year 1900; this could result in processing errors or failures that can lead to an inability to effect business transactions. The potential impacts of the year 2000 issue extend beyond the operating systems and technologies of the Company and encompass the systems used by its suppliers and by companies in which it has investments.

To date, the Company has incurred expenses totalling approximately \$4.0 million (before taxes or \$6.3 million including Seaboard) in connection with the year 2000 project. Expenses of \$300,000 (before taxes) will be required to complete the year 2000 project including global tests and contingency plans.

As soon as 1995, an initial effort allowed the Company to evaluate the extent of the problem and to initiate a work plan. In 1996, a project team has been created, with the objective of adapting the systems. In order to do so, the

following steps were identified: inventory of all the softwares and material, evaluation of the level of risk, modifications to programs, upgrade of operating softwares and material, relevant tests, ongoing conformity and implementation of contingency plans.

The plans implemented provided that most of the changes to be made to the computer systems would be completed by the end of 1998 and this deadline has been met. However, for a particular system, the conformity date has been fixed to October 1998. While this system was expected to be replaced, it has been decided to extend its useful life and to adapt it for year 2000.

In addition to these efforts for its own systems, the Company currently consults with its suppliers and external partners, and other third parties to ensure that no major component of its business is affected by the year 2000 issue because of problems encountered by these third parties. Such process consists, among other things, of asking a certificate of conformity as to their preparation status to year 2000 and, to the extent possible and where the business relation is deemed important, the testing, or otherwise the confirmation of the accuracy of the answers obtained. Finally, a regular monitoring of the project is effected and a report is submitted during board of directors meetings.

Management believes that, with the modifications made to existing softwares, the upgrade of the material and the softwares, the transition to the new millennium will not create any major operating problems for the computer systems of the Company. Despite all the efforts deployed, it is impossible to guarantee that the conformity program will eliminate all significant adverse effects on the Company's operations, its relations with its customers or its financial condition.

Legal Proceedings

Legal proceedings have been initiated against the Company in the normal course of business. These proceedings should not have any significant adverse effect on its consolidated financial condition.

Risk Factors

The Company operates primarily in the insurance and investment management sectors. In addition to the factors which can influence the performance of the Company set out elsewhere in this prospectus, the following briefly describes key factors that can affect the Company and its operations.

Insurance Industry Factors

The profitability of life insurance products depends to a large extent on pricing and experience related to factors such as mortality rates, policy lapse or surrender rates, levels of expenses and investment returns. Results of most annuity and life insurance products depend significantly on the spread between investment returns earned and amounts credited on the contracts.

Pricing risk is the risk that experience in the future will not develop as estimated at the time of pricing the products. Some products are designed such that adjustments to premiums or benefits can be made to reflect variations in experience, while for other products no such adjustment is possible.

All insurance companies are subject to the risk that they could incur excessive claim losses on any one policy or group of policies. The Company uses certain assumptions in pricing its products and in establishing the associated actuarial reserves. There can be no assurance that a risk will occur as foreseen in the assumptions made for pricing and reserving purposes and, to the extent that it differs, the Company's operating results could be materially and adversely affected. Although the Company uses reinsurance in some cases, reinsurance does not relieve the Company of its primary obligations to its policyholders. Accordingly, the Company is exposed to credit risk with respect to amounts ceded to reinsurers.

The Company's results of operations are affected by certain economic and market factors, including the level of volatility in the markets in which the Company invests and the overall investment returns provided thereby. In particular, significant growth in the retirement-oriented investment market and uncommonly strong stock and bond market appreciation have been material factors in the growth of the Company's assets and sales in recent years. There can be no assurance, however, that these economic and market trends will continue. Adverse economic conditions and other factors, including a protracted or precipitous decline in the financial markets and other economic factors that affect the popularity of the Company's products and services, may negatively impact the Company's business, financial position and results of operations.

Fluctuation in The Price of Industrial-Alliance Common Shares

Exchange listed common shares are purchased and sold by investors. The price of common shares is established at the time of their purchase or sale. Once common shares of Industrial-Alliance are listed on The Montreal Exchange and on The Toronto Stock Exchange, their price could be higher or lower than the initial offering price or the estimated value quoted by Nesbitt Burns Inc.

Although the shares offer potential returns, there are also risks associated with their ownership. The price of common shares of Industrial-Alliance could be affected by any of the following general risk factors: the overall situation of the North American economy; the change in interest rates; the opinions of investors concerning the future prospects for the insurance industry in general; and the rise or fall in stock prices in general.

Investors will constantly assess the value of the Company's business operations; this assessment will be reflected in the price of the common shares of Industrial-Alliance.

Offering of Industrial-Alliance Common Shares

The offering of Industrial-Alliance common shares will be influenced by many factors, including the number of common shares issued under the IPO and the fact that all common shares of Industrial-Alliance issued to eligible members will be freely negotiable and may be sold immediately. The sale of a large number of common shares of Industrial-Alliance could exert a downward pressure on the price of the common share.

Demand for Common Shares of Industrial-Alliance

The demand for common shares of Industrial-Alliance will be influenced by numerous factors, including the demand from investors who are not eligible members, as well as the fact that eligible members wishing to increase the number of common shares they hold and the fact that other mutual insurance companies of Canada plan to issue common shares during the next two years. These factors could reduce the demand for common shares of Industrial-Alliance and the price of common shares on the market.

Sensitivity to Interest Rates

The Company's business lines and wealth management are subject to several risks arising from movements in interest rates. Some of these risks are described below.

Interest rate changes may cause a narrowing of the Company's net spread between interest earned on its invested asset portfolio and interest credited on its fixed-rate products. If interest rates were to rise, customers may demand higher yields on their insurance and annuity products. If these products allow for adjustments to the credited interest rates and the Company chose to increase these rates, it may experience a narrowing of the net spread on fixed-rate products if it were unable to replace its invested assets with higher-yielding assets. Conversely, when interest rates fall, the Company would have to reinvest the cash received from its investments in the lower yielding instruments then available. If the Company were unable or chose not to reduce dividends nor the rates credited on its defined benefit annuity products nor to acquire relatively higher risk investments yielding higher rates of return, spread compression would occur. Any such narrowing of net spread on fixed-rate products would adversely affect the Company's business and results of operations.

If, as a result of interest rate increases, the Company were unable or chose not to raise its crediting rates to keep them competitive, the Company may experience an increased level of surrenders and other withdrawals. If the Company lacked sufficient liquidity, it might have to sell bonds or other securities to fund associated payments. Because the value of such securities would likely have decreased in response to the increase in interest rates, the Company would realize a loss on the sales. In addition, regardless of whether the Company realizes an investment loss, the withdrawals would produce a decrease in the level of business, with an adverse effect on future earnings.

Competition

The insurance and savings products market in Canada is highly competitive. The products and services offered by the Company not only directly compete with those of other insurers operating in Canada, but also in certain cases with those of banks, trust companies, mutual funds and other financial institutions. The large number of financial institutions and the size of some of them, make it increasingly difficult to compete.

The reorganization under way in the insurance industry also operates a repositioning of the major players on the financial services market. The change in the legislative environment and the changes currently contemplated at the federal level will certainly affect the development of this sector in the next few years.

Competition for financial products and services offered, their pricing and their distribution method will continue to intensify. Moreover, to the extent where the reorganization under way will result in a reduction of operating charges of certain companies, the profit margins of companies which are unable to adapt may be adversely affected.

Investment Portfolio

The Company's investment portfolio primarily includes good quality mortgage loans and bonds. The fair value of these investments and of the other assets invested vary according to the economic conditions in general and interest rates fluctuations. During periods of declining interest rates, bond redemptions and early repayments of mortgage loans generally increase, resulting in the reinvestment of such funds at lower current rates. In order to minimize the risk of reinvestment, the Company periodically reviews several scenarios of random fluctuations of current and future interest rates, and adjust regularly the matching of its assets and liabilities. The investments of the Company in good quality bonds and mortgage loans support, to a very large extent, the liabilities under the insurance and annuity policies of the Company. The cash flow arising from these investments matches the liquidity requirements linked to the Company's policies, within the limits prescribed by the Company. If the Company does not achieve the expected returns underlying the pricing of its products, its operating results may be adversely affected.

Mortgage loans and real estate investments are comparatively less liquid than good quality bonds. Should the Company need substantial liquidities in the short term, it may have problems to sell these investments at interesting prices. However, under the Company's investment policy, liquid assets (short term and readily marketable securities) must exceed the liabilities redeemable by the policyholders. Those investments also involve a higher risk of loss on investments than good quality bonds. In the past, commercial real estate markets have experienced periods of significant decline of values. There can be no guaranty that this type of situation will not affect the Company's bonds, mortgage loans and real estate portfolio. Although management believes that the provision for mortgage loan depreciation was sufficient as at June 30, 1999, there is no guaranty that other provisions for evaluations will not be required in the next few years.

The Company is also subject to credit risks related to the debtors capacity to pay under the terms and conditions underlying these investments. Even though the bonds held by the Company are of good quality and that the Company considers it maintains a conservative diversification by category of issuers, a major economic downturn could lead to the default of a number of them. Such defaults may adversely affect the business, the financial conditions and the operating results of the Company.

The strong performance of the stock market in the past few years has contributed to the market value appreciation of the equity portfolio of the Company's general fund. Under Canadian GAAP, 15% of the gains or losses on the stock market, whether realized or not, are included in the investment income each year. A significant and steady decline in the stock markets in Canada and the United States would result in a market value depreciation of the equity portfolio of the Company's general fund and could even lead to losses, realized or not, recorded in the investment income at a rate of 15% per year. The Company may, from time to time, for commercial, regulatory or other reasons, decide or be required to sell assets invested in the general fund at a time where their fair value is inferior to their book value, which would result in realized losses on investments and could reduce the net income of the Company if the Company is unable to reinvest the proceeds of the sale of such assets at a rate of return equal to that of the assets sold.

The risk of fluctuation of the market value of the Company's segregated funds is generally assumed by the policyholders. Accordingly, market value variations of such assets could result in variations in the income of the Company to the extent where fees are determined with relation to the value of such funds. Moreover, some of the segregated funds provide warranties upon the death of the policyholder or, after a fixed number of years, upon maturity of the policy. A significant and steady decline, over several years, of the financial market may result in net losses on such products which could have adversely affect the company.

Fluctuation in Claims

The net income of a life and health insurance company depends, in part, on claims incurred and paid in connection with its insurance policies. Industrial-Alliance uses both the industry's experience and the experience of its business lines to estimate future claims and uses these valuations to set the rates for its insurance products and the related actuarial liabilities. Nevertheless, it is impossible to guarantee that the actual results will correspond to these estimates. The Company's operating results will vary from one period to another, just as actual claims will vary from the estimates made. Furthermore, if the actual results achieved during a given period considerably exceed the assumptions

used to set the rates for products and the actuarial liabilities, the adverse effect on the Company's operating results for this period could be significant.

Provisions for Future benefits

The Company sets aside funds to cover future liabilities under policies that have been issued. Management believes that these provisions are sufficient. Nevertheless, if these provisions prove to be insufficient, the Company would then have to increase these provisions, which could reduce overall profits.

Regulatory and Tax Environment

The Company's activities are subject to a significant number of regulations established by governmental agencies. These regulations are particularly intended to protect policyholders and beneficiaries rather than investors. Changes in the applicable laws and regulations or in their interpretation could have a negative impact on the Company's activities. *An Act respecting insurance* and *An Act respecting conversion* prohibit the direct or indirect acquisition by any person of more than 10% of any class of Industrial-Alliance shares, and certain major transactions require the consent of the regulatory authorities and may require the approval of the Industrial-Alliance shareholders. The Company's financial results could be affected by income tax and tax changes required by the various levels of government.

Risks With Respect to Anti-Takeover Regulation

An Act respecting conversion will contain provisions to the effect that no person can hold more than 10% of the outstanding voting shares of Industrial-Alliance. Therefore, any person seeking to acquire a controlling interest of Industrial-Alliance would face regulatory hurdles which may delay, defer or prevent an acquisition that shareholders of Industrial-Alliance might consider to be in their best interests.

Subsidiaries

Under the regulations, Industrial-Alliance and its subsidiaries must comply with a large number of credit and capitalization criteria. In Canada, Industrial-Alliance and its subsidiaries are subject to statutory restrictions with regard to the ability to declare and pay dividends. The legislation prohibits the declaration or payment of dividends on the shares of an insurance company if there is reasonable grounds to believe that, in doing so, the insurance company infringes or will infringe the prescribed minimum solvency level. Under the *Insurance Companies Act*, Industrial-Alliance's subsidiaries are required to notify the Superintendent of any declaration of a dividend at least ten days before its payment date. As a consequence, Industrial-Alliance may not have access to certain assets held by its subsidiaries.

Rating Agencies

Ratings with respect to claims-paying ability and financial strength are an important factor in establishing the competitive position of insurance companies. Ratings are influential in maintaining public confidence in the Company and its ability to market its products. Rating agencies continually review the financial performance and condition of insurers, including the Company. Downgrades or negative outlooks with respect to the ratings of the Company could, among other things, increase surrender levels, adversely affect relationships with investment dealers, banks, agents, wholesalers and other distributors of the Company's products and services, affect client retention, the Company's ability to market its products and thereby materially and adversely affect the Company's liquidity and in some cases its business, financial condition and results of operation. See "Rating Agencies".

Impact of the Year 2000

The year 2000 problem refers to computer programs that use a two-digit code to represent the year instead of the usual four digits. Thus, the year 1998 would be represented by "98." This was a common practice in the industry for saving money by using less computer memory. This means that any computer with time-sensitive programs might determine that a date including "00" is the year 1900 rather than the year 2000. This can most certainly lead to major failures or to erroneous calculations. The Company has been conducting an in-depth examination of its computers in order to determine which programs might be affected by the year 2000 problem, and has developed and established a plan so that the year 2000 does not cause any significant operating problems for the Company's computer programs. However, if suppliers or other independent parties neglect to address the year 2000 problem appropriately, the Company's activities could be adversely affected. See "Year 2000" in this chapter.

Participating Account

According to the conversion proposal, Industrial-Alliance will continue to have a participating account that will include participating policies issued by it. If investment income, mortality rates, duration of policies or actuarial liabilities of the policies included in the participating account show less advantageous variations than projected, management could be required to use funds from the shareholders' account to pay the benefits or to maintain the policyholder dividend levels for policies in the participating account.

Auditors, Registrar and Transfer Agent

The Company's auditors are Samson Bélair Deloitte & Touche, 5600 Boulevard des Galeries, Québec City, Québec.

The registrar and transfer agent for the common shares is Montreal Trust Company, at its principal offices in Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal and Halifax.

Financial Information

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**COMPILATION REPORT ON THE
PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
OF INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY**

*To the Members of the Board of Directors of
Industrial-Alliance Life Insurance Company*

We have reviewed, as to compilation only, the pro forma consolidated statement of income of Industrial-Alliance Life Insurance Company for the year ended December 31, 1998 and the six-month period ended June 30, 1999 and its pro forma consolidated balance sheet at those dates. These pro forma consolidated financial statements have been prepared for inclusion in the Member Guide and in the prospectus relating to the initial public offering of shares of the Company. In our opinion, these pro forma consolidated financial statements have been properly compiled to give effect to the proposed transactions and the assumptions described in the notes thereto.

The image shows a handwritten signature in cursive script that reads "Samson Bélair". Below the signature, the firm name "Deloitte & Touche" is written in a stylized, handwritten font.

Samson Bélair/Deloitte & Touche, S.E.N.C.
Chartered Accountants

Québec City, July 30, 1999

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

PRO FORMA CONSOLIDATED STATEMENT OF INCOME

Year ended December 31, 1998

(unaudited)

(in millions of dollars)

	<u>ACTUAL</u>		<u>Consolidated</u>	<u>Income of</u>	<u>Adjustments</u>	<u>PRO FORMA</u>
	<u>Industrial-Alliance</u>	<u>Conversion</u>	<u>income after</u>	<u>Canadian</u>	<u>related to</u>	<u>Consolidated</u>
	(Note 1)	(Note 3)	<u>conversion</u>	<u>operations of</u>	<u>combination of</u>	<u>income after</u>
				<u>Seaboard</u>	<u>Seaboard</u>	<u>combination and</u>
				(Note 1)	(Note 3)	<u>conversion</u>
Revenues						
Insurance and annuity premiums	\$1,788.2	\$	\$1,788.2	\$234.5	\$	\$2,022.7
Investment income	597.0		597.0	91.7	(14.8)	673.9
Fees and other	49.1	—	49.1	7.6	—	56.7
	<u>2,434.3</u>		<u>2,434.3</u>	<u>333.8</u>	<u>(14.8)</u>	<u>2,753.3</u>
Operating expenses						
Increase (decrease) in provisions for future policy benefits	270.9		270.9	(37.8)		233.1
Policy benefits in process of payment and claims incurred	1,047.6		1,047.6	178.9		1,226.5
Net transfer to segregated funds	637.1		637.1	71.1		708.2
Interest on amounts on deposit	11.5		11.5	0.4		11.9
Experience refunds	17.2		17.2			17.2
Commissions	156.4		156.4	14.0		170.4
Premium taxes	16.3		16.3	3.4		19.7
General expenses	145.7	4.2	149.9	72.8	1.6	224.3
Net financing expenses	6.4	—	6.4	3.8	5.1	15.3
	<u>2,309.1</u>	<u>4.2</u>	<u>2,313.3</u>	<u>306.6</u>	<u>6.7</u>	<u>2,626.6</u>
Net income before income taxes and dividends to policyowners	125.2	(4.2)	121.0	27.2	(21.5)	126.7
Income taxes	31.8	(1.5)	30.3	3.6	(7.5)	26.4
Net income before dividends to policyowners	93.4	(2.7)	90.7	23.6	(14.0)	100.3
Dividends to policyowners	23.7	—	23.7	0.7	—	24.4
Net income for the year	<u>\$ 69.7</u>	<u>\$(2.7)</u>	<u>\$ 67.0</u>	<u>\$ 22.9</u>	<u>\$(14.0)</u>	<u>\$ 75.9</u>
Represented by:						
Net income attributable to participating policies		6.5	6.5	0.2		6.7
Net income attributable to shareholders	69.7	(9.2)	60.5	22.7	(14.0)	69.2
	<u>\$ 69.7</u>	<u>\$(2.7)</u>	<u>\$ 67.0</u>	<u>\$ 22.9</u>	<u>\$(14.0)</u>	<u>\$ 75.9</u>

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

PRO FORMA CONSOLIDATED STATEMENT OF INCOME

(unaudited)
(in millions of dollars)

	Six months ended June 30, 1999		
	<u>ACTUAL</u>	<u>Adjustments</u>	<u>PRO FORMA</u>
	(Note 1)	(Note 3)	
Revenues			
Insurance and annuity premiums	\$1,069.2	\$	\$1,069.2
Investment income	342.7		342.7
Fees and other	31.4		31.4
	<u>1,443.3</u>		<u>1,443.3</u>
Operating expenses			
Increase in provisions for future policy benefits	212.9		212.9
Policy benefits in process of payment and claims incurred	609.0		609.0
Net transfer to segregated funds	318.2		318.2
Interest on amounts on deposit	3.1		3.1
Experience refunds	5.6		5.6
Commissions	113.8		113.8
Premium taxes	10.7		10.7
General expenses	93.4	2.1	95.5
Net financing expenses	8.9		8.9
	<u>1,375.6</u>	<u>2.1</u>	<u>1,377.7</u>
Net income before income taxes, unusual items and dividends to policyowners	67.7	(2.1)	65.6
Unusual items	7.3		7.3
Income taxes	(21.9)	0.8	(21.1)
Net income before dividends to policyowners	53.1	(1.3)	51.8
Dividends to policyowners	13.4		13.4
Net income for the year	<u>\$ 39.7</u>	<u>\$ (1.3)</u>	<u>\$ 38.4</u>
Represented by:			
Net income attributable to participating policies		3.0	3.0
Net income attributable to shareholders	39.7	(4.3)	35.4
	<u>\$ 39.7</u>	<u>\$ (1.3)</u>	<u>\$ 38.4</u>

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

PRO FORMA CONSOLIDATED BALANCE SHEET

As at December 31, 1998

(unaudited)

(in millions of dollars)

	ACTUAL		Consolidated	Canadian	Adjustments	PRO FORMA
	Industrial- Alliance	Conversion adjustments	Balance sheet after conversion	operations of Seaboard Life Balance sheet	related to combination of Seaboard	Balance sheet after combination and conversion
	(Note 1)	(Note 3)		(Note 1)	(Note 3)	
ASSETS						
Investments						
Bonds	\$3,740.2	\$	\$3,740.2	\$ 287.7	\$	\$4,027.9
Stocks and equity indices	399.2		399.2	236.3	19.8	655.3
Mortgage loans	2,833.3		2,833.3	439.3		3,272.6
Real estate	323.7		323.7	51.9		375.6
Policy loans	120.0		120.0	8.4		128.4
Short-term investments and cash	347.1		347.1	110.9	(143.1)	314.9
Investment fund	64.5		64.5	9.3		73.8
	<u>7,828.0</u>		<u>7,828.0</u>	<u>1,143.8</u>	<u>(123.3)</u>	<u>8,848.5</u>
Other assets						
Accrued revenue and amounts receivable	173.7		173.7	40.9	(8.2)	206.4
Goodwill	25.0		25.0		32.3	57.3
Fixed assets and other	58.6		58.6	2.3		60.9
	<u>257.3</u>		<u>257.3</u>	<u>43.2</u>	<u>24.1</u>	<u>324.6</u>
General fund assets	<u>\$8,085.3</u>	<u>\$</u>	<u>\$8,085.3</u>	<u>\$1,187.0</u>	<u>\$ (99.2)</u>	<u>\$9,173.1</u>
Segregated funds assets	<u>\$2,540.6</u>		<u>\$2,540.6</u>	<u>\$ 311.8</u>		<u>\$2,852.4</u>
LIABILITIES						
Actuarial liabilities						
Provision for future policy benefits	\$6,509.0	\$	\$6,509.0	\$ 820.9	\$ (32.5)	\$7,297.4
Provisions for dividends to policyowners and experience refunds	41.3		41.3	0.8		42.1
Provisions for policy benefits in process of payment ...	47.9		47.9	34.2		82.1
Premiums paid in advance and amounts on deposit	179.6		179.6	6.5		186.1
	<u>6,777.8</u>		<u>6,777.8</u>	<u>862.4</u>	<u>(32.5)</u>	<u>7,607.7</u>
Other liabilities						
Unearned premiums and contractual liabilities	49.6		49.6			49.6
Accounts payable and accrued liabilities	117.8		117.8	25.2	7.2	150.2
Future income tax liability	95.2		95.2	11.8	25.8	132.8
Long-term debt and other	49.1		49.1			49.1
	<u>311.7</u>		<u>311.7</u>	<u>37.0</u>	<u>33.0</u>	<u>381.7</u>
Participating policyowners' account		35.0	35.0	5.0		40.0
Deferred credits	302.6		302.6	56.5	(22.8)	336.3
Subordinated debentures	110.0		110.0	55.0	20.0	185.0
EQUITY						
Policyowners' equity						
Surplus	570.5	(570.5)				
Currency translation account	12.7	(12.7)				
Shareholders' equity						
Preferred shares					75.0	75.0
Common shares		535.5	535.5	54.4	(55.2)	534.7
Retained earnings				116.7	(116.7)	
Currency translation account		12.7	12.7			12.7
	<u>583.2</u>	<u>(35.0)</u>	<u>548.2</u>	<u>171.1</u>	<u>(96.9)</u>	<u>622.4</u>
General fund liabilities and equity	<u>\$8,085.3</u>	<u>\$</u>	<u>\$8,085.3</u>	<u>\$1,187.0</u>	<u>\$ (99.2)</u>	<u>\$9,173.1</u>
Segregated funds liabilities	<u>\$2,540.6</u>		<u>\$2,540.6</u>	<u>\$ 311.8</u>		<u>\$2,852.4</u>

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

PRO FORMA CONSOLIDATED BALANCE SHEET

(unaudited)
(in millions of dollars)

	As at June 30, 1999		
	<u>ACTUAL</u>	<u>Adjustments</u>	<u>PRO FORMA</u>
	(Note 1)	(Note 3)	
ASSETS			
Investments			
Bonds	\$ 4,231.7	\$	\$ 4,231.7
Stocks and equity indices	551.0		551.0
Mortgage loans	3,296.5		3,296.5
Real estate	379.5		379.5
Policy loans	121.8		121.8
Short-term investments and cash	361.2		361.2
Investment fund	61.4		61.4
	<u>9,003.1</u>		<u>9,003.1</u>
Other assets			
Accrued revenue and amounts receivable	225.0		225.0
Goodwill	50.6		50.6
Fixed assets and other	70.7		70.7
	<u>346.3</u>		<u>346.3</u>
General fund assets	<u>\$ 9,349.4</u>	<u>\$</u>	<u>\$ 9,349.4</u>
Segregated funds assets	<u>\$ 3,147.1</u>		<u>\$ 3,147.1</u>
LIABILITIES			
Actuarial liabilities			
Provision for future policy benefits	\$ 7,468.2	\$	\$ 7,468.2
Provisions for dividends to policyowners and experience refunds	43.9		43.9
Provisions for policy benefits in process of payment	82.8		82.8
Premiums paid in advance and amounts on deposit	176.7		176.7
	<u>7,771.6</u>		<u>7,771.6</u>
Other liabilities			
Unearned premiums and contractual liabilities	12.6		12.6
Accounts payable and accrued liabilities	142.8		142.8
Future income tax liability	138.6		138.6
Long-term debt and other	37.7		37.7
	<u>331.7</u>		<u>331.7</u>
Participating policyowners' account	5.1	38.0	43.1
Deferred credits	362.5		362.5
Subordinated debentures	185.0		185.0
EQUITY			
Policyowners' equity			
Surplus	609.4	(609.4)	
Currency translation account	9.1	(9.1)	
Shareholders' equity			
Preferred shares	75.0		75.0
Common shares		571.4	571.4
Retained earnings			
Currency translation account		9.1	9.1
	<u>693.5</u>	<u>(38.0)</u>	<u>655.5</u>
General fund liabilities and equity	<u>\$ 9,349.4</u>	<u>\$ 0.0</u>	<u>\$ 9,349.4</u>
Segregated funds liabilities	<u>\$ 3,147.1</u>		<u>\$ 3,147.1</u>

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

Notes to pro forma consolidated financial statements (in millions of dollars)

1. CONSOLIDATED PRO FORMA FINANCIAL STATEMENTS

The consolidated pro forma financial statements have been prepared to reflect the conversion of the mutual company into a share capital company, as well as the acquisition of the Canadian insurance business of Seaboard Life ("Seaboard") and its combination with Industrial-Alliance's operations.

These pro forma financial statements have been prepared from the following financial information:

- a) The audited consolidated balance sheet and consolidated statement of income of Industrial-Alliance Life Insurance Company as at December 31, 1998 and for the year then ended as well as the unaudited consolidated balance sheet and consolidated statement of income as at June 30, 1999 and for the six-month period then ending. Industrial-Alliance Life Insurance Company's consolidated statement of income for the six-month period ending June 30, 1999 as well as its balance sheet as at that date include the financial results of Seaboard, acquired in January 1999.
- b) The consolidated balance sheet, as at December 31, 1998, of Seaboard North American Holdings, Inc., the owner of Seaboard at that date, as well as the non-consolidated results of the Canadian business of Seaboard for the year then ended, taken from the annual report sent to the regulatory authority from which were excluded the income from subsidiaries presenting primarily data related to foreign operations.

The pro forma consolidated financial statements are not intended to reflect the financial position or the results of operations that would have actually resulted if the acquisition of Seaboard and the conversion of the Company into a share capital company had taken place on the dates indicated, nor are they intended to be an indication of future results.

2. PRO FORMA ASSUMPTIONS

Conversion of the mutual company into a share capital company

The pro forma consolidated financial statements are based on the assumption that the mutual company Industrial-Alliance Life Insurance Company is converted into a share capital company and that this conversion is deemed to have taken place on January 1 of the period covered in terms of the impact it has on the statements of income for the twelve- and six-month periods ended December 31, 1998 and June 30, 1999, respectively. This conversion is deemed to have taken place on December 31, 1998 for the purposes of the pro forma consolidated balance sheet as at December 31, 1998 and on June 30, 1999 for the purposes of the pro forma consolidated balance sheet as at June 30, 1999.

The primary effects resulting from this assumption are summarized as follows:

- a) In cases where policyowners receive cash rather than shares on conversion of the Company, the amounts paid are deemed to be dividends drawn from the surplus. The Company plans to complete an initial public offering to raise cash through the issuance of common shares to offset this disbursement of funds. Therefore, for the purposes of the pro forma balance sheet, it was estimated that the initial public offering would raise \$300.0. Any cash distribution will be limited to the Company's ability to obtain the required funds through a public offering.
- b) An amount of \$35.0 of surplus as at December 31, 1998 (\$38.0 as at June 30, 1999) is recorded under an item separate from equity and represents the unappropriated portion of this surplus attributable to the participating policyholders of the Industrial-Alliance's life insurance subsidiaries at that date.
- c) The amount corresponding to the value of the shares issued as part of the initial public offering along with the undistributed share of the surplus are accounted for as share capital upon conversion.
- d) The pro forma consolidated statement of income is affected by an expense corresponding to the estimated cost of providing for regular services to shareholders.
- e) The pro forma consolidated financial statements do not provide for any dividends other than the dividend related to the preferred shares issued to replace the preferred equity securities.
- f) Net income for the year is shared between the participating policies of the life insurance subsidiaries and shareholders.

Combination of the Canadian insurance business of Seaboard

The financial results of the Company and the Canadian business of Seaboard have been combined to give effect to the acquisition of Seaboard and the relating financing.

The following items were used to prepare the pro forma consolidated financial statements:

- a) The combination of the Canadian insurance business of Seaboard was assumed in January 1998 according to the terms agreed upon in the acquisition contract entered into on January 6, 1999 and including a price of \$201.8 paid in cash.
- b) As part of this acquisition, the Company issued a \$75.0 subordinated debenture bearing basic interest of 6.25% and variable interest of no more than 5.25%, subject to certain conditions, and issued \$75.0 in preferred equity securities with a non-cumulative dividend of 1%. The balance of the price was paid from the Company's funds.

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

Notes to pro forma consolidated financial statements — (continued) (in millions of dollars)

2. PRO FORMA ASSUMPTIONS — (continued)

- c) The acquisition was accounted for under the purchase method. The difference between the purchase price and the estimated fair value of the net assets acquired have been accounted for as goodwill. The amount of \$32.3 of goodwill is amortized to operations over a maximum period of 20 years.
- d) The pro forma consolidated statement of income have been affected by an amortization of goodwill, a financing charge and the related tax credits. In addition, the equity accounts have been affected by a charge attributable to the dividend related to the issued preferred equity securities.

3. PRO FORMA ADJUSTMENTS

The adjustments made in order to prepare these pro forma consolidated financial statements are based on estimates and assumptions made by the Company's management based on known and available information.

Adjustments related to the conversion to a shareholder-owned company:

- a) A \$4.2 charge (\$2.1 for the six-month period ended June 30, 1999) to provide for the estimated cost of services to shareholders and recognition of a \$1.5 related tax savings (\$0.8 for the six-month period ended June 30, 1999).
- b) Allocation of an amount of \$6.5 of surplus for the year (\$3.0 for the six-month period ended June 30, 1999) to provide for net income attributable to participating policies.
- c) Restatement of the surplus by an amount of \$35.0 (\$38.0 as at June 30, 1999) to the participating policyowners' account.
- d) Reduction of \$300.0 in policyowners' equity to account for the assumed cash distribution to the eligible members who will receive cash in lieu of shares.
- e) Offset of the \$234.7 balance of surplus (\$271.4 as at June 30, 1999) by an equal amount of shares in order to proceed with the conversion of the mutual company into a share capital company.
- f) The issuance of \$300.0 of common shares, to the public, to generate cash to cover the assumed level of cash distribution to policyholders.

The estimated costs of the conversion, including the costs of the initial public offering, determined after all tax considerations, is \$17.8. These costs do not appear in the pro forma consolidated financial statements, but will be accounted for as equity transactions and will affect shareholders' equity. As at June 30, 1999, an amount of \$0.6 related to such costs is applied against shareholders' equity.

Adjustments related to the combination of Seaboard and the related financing:

- a) Decrease in investment income for the year ended December 31, 1998 by an amount of \$14.8 before income taxes. This amount is made up of (i) \$8.5 representing the elimination of the amortization of deferred credits and of the increase in value of investments, both of which were considered in the breakdown of the purchase price of Seaboard, (ii) an amount of \$3.8 representing the elimination of interest income from the debenture issued by Seaboard and held by Industrial-Alliance and (iii) \$2.5 reflecting the absence of revenue attributable to the cash used to pay the purchase price. Such an adjustment should not affect the data for the six-month period ended June 30, 1999.
- b) Increase in expenses for the year ended December 31, 1998 by an amount of \$10.5 including \$1.6 in amortization of goodwill, \$8.9 in estimated financing expenses to acquire Seaboard and the elimination of \$3.8 of interest paid by Seaboard to Industrial-Alliance on the issued debenture.
- c) Recording in surplus of a \$0.8 dividend on the preferred equity securities issued.
- d) Reduction in income tax expense for 1998 by an amount of \$7.5 in relation to the above-mentioned items.
- e) Net increase of \$11.6 in the value of assets acquired and \$0.5 in the value of liabilities assumed to reflect the values assigned by the Company to Seaboard's assets and liabilities.
- f) Transfer to Seaboard's equity of an amount of \$22.8 of deferred credits representing the portion of gains already realized by that company on assets not matched to liabilities.
- g) Recording of an amount of \$32.3 as goodwill resulting from the combination of Seaboard's Canadian operations.
- h) Recording of a \$75.0 debenture and \$75.0 of preferred equity securities, both issued as part of the acquisition of Seaboard.

In January 1999, due to the closing of the acquisition of the Canadian insurance business of Seaboard and the related financing, the data as at June 30, 1999 are not affected by the above-mentioned adjustments.

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

Notes to pro forma consolidated financial statements — (continued) (in millions of dollars)

3. PRO FORMA ADJUSTMENTS — (continued)

Summary of adjustments affecting the statement of income

	As at June 30, 1998			As at December 31, 1998		
	Adjustments related to demutualization	Adjustments related to the combination of Seaboard's operations	Total	Adjustments related to demutualization	Adjustments related to the combination of Seaboard's operations	Total
Revenues						
Investment income	\$	\$	\$	\$	\$ (14.8)	\$ (14.8)
Operating expenses						
General expenses	2.1		2.1	4.2	1.6	5.8
Net financing expenses					5.1	5.1
Net income before income taxes and dividends to policyowners	(2.1)		(2.1)	(4.2)	(21.5)	(25.7)
Income taxes	(0.8)		(0.8)	(1.5)	(7.5)	(9.0)
Net income before dividends to policyowners	(1.3)		(1.3)	(2.7)	(14.0)	(16.7)
Dividends to policyowners	3.0		3.0	6.5		6.5
Net income for the year attributable to shareholders	<u>\$ (4.3)</u>	<u>\$</u>	<u>\$ (4.3)</u>	<u>\$ (9.2)</u>	<u>\$ (14.0)</u>	<u>\$ (23.2)</u>

Summary of adjustments affecting equity

	As at June 30, 1999			As at December 31, 1998		
	Industrial- Alliance consolidated balance sheet	Adjustments	Pro-forma consolidated balance sheet	Industrial- Alliance consolidated balance sheet	Adjustments	Pro-forma consolidated balance sheet
Policyowners' equity						
Surplus						
Balance at beginning	\$609.4	\$	\$609.4	\$570.5	\$	\$ 570.5
Dividends on preferred equity securities					(0.8)	(0.8)
Reclassification to participating policyowners' account		(38.0)	(38.0)		(35.0)	(35.0)
Transfer to share capital		(571.4)	(571.4)		(534.7)	(534.7)
Balance at end	609.4	(609.4)		570.5	(570.5)	
Currency translation account	9.1	(9.1)		12.7	(12.7)	
	<u>\$618.5</u>	<u>\$(618.5)</u>	<u>\$</u>	<u>\$583.2</u>	<u>\$(583.2)</u>	<u>\$</u>
Participating policyowners' account	<u>\$ 5.1⁽¹⁾</u>	<u>\$ 38.0</u>	<u>\$ 43.1</u>	<u>\$ 5.0⁽¹⁾</u>	<u>\$ 35.0</u>	<u>\$ 40.0</u>
Shareholders' equity						
Common shares						
Issue of shares to offset the balance of surplus	\$	\$ 271.4	\$271.4	\$	\$ 234.7	\$ 234.7
Initial public offering		300.0	300.0		300.0	300.0
Balance at end		571.4	571.4		534.7	534.7
Currency translation account		9.1	9.1		12.7	12.7
	<u>\$</u>	<u>\$ 580.5</u>	<u>\$580.5</u>	<u>\$</u>	<u>\$ 547.4</u>	<u>\$ 547.4</u>

(1) Represents the participating policyowners' account of Seaboard.

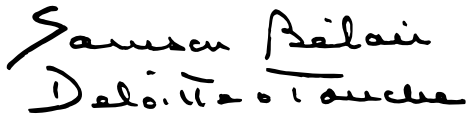
**AUDITORS' REPORT
ON CONSOLIDATED FINANCIAL STATEMENTS OF
INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY**

*To the Members of the Board of Directors of
Industrial-Alliance Life Insurance Company*

We have audited the consolidated balance sheets of Industrial-Alliance Life Insurance Company as at December 31, 1998, 1997, 1996, 1995 and 1994 and the consolidated statements of income and surplus and changes in financial position for the years then ended. These financial statements are the responsibility of Industrial-Alliance Life Insurance Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Industrial-Alliance Life Insurance Company as at December 31, 1998, 1997, 1996, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Samson Bélair
Deloitte & Touche

Samson Bélair/Deloitte & Touche, S.E.N.C.
Chartered Accountants.

Québec City, February 5, 1999

**REVIEW ENGAGEMENT REPORT
ON THE SIX-MONTH CONSOLIDATED FINANCIAL STATEMENTS
OF INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY**

*To the Members of the Board of Directors of
Industrial-Alliance Life Insurance Company*

We have reviewed the consolidated balance sheet of Industrial-Alliance Life Insurance Company as at June 30, 1999 and the consolidated statements of income and surplus and changes in financial position for the six-month periods ended June 30, 1999 and 1998. Our review was made in accordance with generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the Company.

A review does not constitute an audit and consequently we do not express an audit opinion on these financial statements.

Based on our review, nothing has come to our attention that causes us to believe that these consolidated financial statements are not, in all material respects, in accordance with generally accepted accounting principles.



Samson Bélair
Deloitte & Touche

Samson Bélair/Deloitte & Touche, S.E.N.C.
Chartered Accountants.

Québec City, July 30, 1999

**APPOINTED ACTUARIES' REPORT
ON CONSOLIDATED ACTUARIAL LIABILITIES OF
INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY**

*To the members of the Board of Directors
of Industrial-Alliance Life Insurance Company*

February 5, 1999

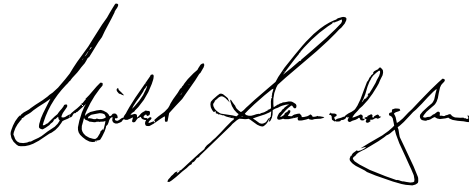
We have valued the actuarial liabilities of Industrial-Alliance Life Insurance Company for the purposes of its consolidated balance sheets as at December 31, 1998, 1997, 1996, 1995, and 1994. We have also valued the changes in the actuarial liabilities in its consolidated statements of income and surplus for the five fiscal years included in the five-year period ending December 31, 1998. These valuations were carried out in accordance with accepted actuarial practice by using appropriate assumptions and methods.

In our opinion, the results of the valuations constitute an appropriate provision with respect to commitments to policyowners. The results are also fairly presented in the consolidated financial statements.

Appointed Actuaries



Yvon Charest
Fellow, Canadian Institute of Actuaries
(for the years ended December 31, 1994, 1995
and 1996)



Michel Sanschagrin
Fellow, Canadian Institute of Actuaries
(for the years ended December 31, 1997 and 1998)

**APPOINTED ACTUARY'S REPORT ON THE REVIEW
OF THE SIX-MONTH CONSOLIDATED ACTUARIAL LIABILITIES
OF INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY**

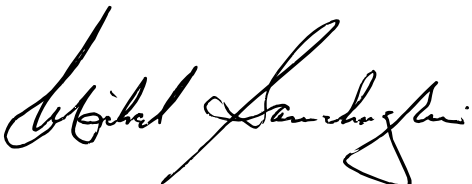
*To the Members of the Board of Directors
of Industrial-Alliance Life Insurance Company*

July 30, 1999

I have reviewed the actuarial liabilities of Industrial-Alliance Life Insurance Company for the purposes of its consolidated balance sheet as at June 30, 1999. I have also reviewed the changes in the actuarial liabilities in its consolidated statements of income and surplus for the six-month periods ended June 30, 1999 and 1998. These reviews were carried out in accordance with accepted actuarial practice and accordingly consisted primarily of enquiry and analytical procedures related to the principal components of these actuarial liabilities and of its variations.

A such review does not constitute an actuarial valuation and consequently I do not express an opinion on the adequacy of these data. However, based on my review, nothing has come to my attention that causes me to believe that the actuarial liabilities and its variations have not been determined in accordance with standards defined by the Canadian Institute of Actuaries and, consequently, do not constitute an appropriate provision with respect to commitments to policyowners.

Appointed Actuary



Michel Sanschagrin
Fellow, Canadian Institute of Actuaries

**MANAGEMENT'S REPORT OF
INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY**

The consolidated financial statements of Industrial-Alliance Life Insurance Company are the responsibility of the Company's Management. These statements have been prepared in accordance with generally accepted accounting principles and, in certain cases, contain amounts based on best judgment and estimates. The financial information presented elsewhere in this report complies with the information contained in the financial statements, which have been approved by the Board of Directors.

In order to carry out its responsibilities with regard to the financial statements, Management maintains internal control systems that aim to provide a reasonable degree of certainty that transactions are duly authorized, that the assets are well protected, and that adequate records are kept. These internal control systems are reinforced by the work of a team of internal auditors, who make a periodic review of all departments within the Company.

The actuary is appointed by the Board of Directors in accordance with *An Act respecting insurance* (Quebec), and is responsible for valuating actuarial liabilities in accordance with the standards of practice of the Canadian Institute of Actuaries. Moreover, independent auditors appointed by the policyowners ensure the accuracy of the information presented in the financial statements, and express their opinion on these statements.

At regular intervals, auditing is performed by the Inspector General of Financial Institutions to ascertain whether the terms of the law concerning policyowners' interest and the preservation of a sound financial position are respected.

The Board of Directors' Audit Committee, comprised solely of board members who are neither managers nor employees of the Company, ensures that Management assumes its responsibility in terms of financial information. This committee meets regularly with Management and the internal and external auditors. The latter may, as they see fit, meet with the Audit Committee, with or without Management, to discuss matters affecting the audit and financial information.

On behalf of Management,

A handwritten signature in black ink, appearing to read "Raymond Garneau". The signature is fluid and cursive, with a large initial 'R' and 'G'.

Raymond Garneau
Chairman of the Board
President and Chief Executive Officer

Québec, February 16, 1999

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

CONSOLIDATED STATEMENTS OF INCOME AND SURPLUS

	Six months ended June 30,		Years ended December 31,				
	1999	1998	1998	1997	1996	1995	1994
	(unaudited)		(in millions of dollars)				
Revenues							
Insurance and annuity premiums (Note 5)	\$1,069.2	\$ 992.9	\$1,788.2	\$1,643.9	\$1,133.1	\$1,145.0	\$1,089.7
Investment income (Note 6)	342.7	291.0	597.0	586.8	587.7	579.2	548.5
Fees and other	31.4	23.0	49.1	35.1	26.7	16.8	16.2
	1,443.3	1,306.9	2,434.3	2,265.8	1,747.5	1,741.0	1,654.4
Operating expenses							
Increase (decrease) in provisions for future policy benefits	212.9	132.2	270.9	(27.8)	45.2	305.8	174.6
Policy benefits in process of payment and claims incurred	609.0	523.5	1,047.6	1,151.7	988.2	929.2	892.9
Net transfer to segregated funds	318.2	424.0	637.1	712.9	304.0	154.1	236.3
Interest on amounts on deposit	3.1	3.7	11.5	8.9	10.8	10.7	11.2
Experience refunds	5.6	2.5	17.2	10.1	25.5	(0.6)	8.9
Commissions	113.8	78.1	156.4	146.1	117.5	103.3	98.4
Premium taxes	10.7	7.8	16.3	14.9	14.3	13.4	13.0
General expenses	93.4	71.1	145.7	137.0	132.1	128.9	129.0
Net financing expenses	8.9	3.2	6.4	6.4	4.2	1.8	1.8
	1,375.6	1,246.1	2,309.1	2,160.2	1,641.8	1,646.6	1,566.1
Net income before unusual items, income taxes, discontinued operations and dividends to policyowners							
	67.7	60.8	125.2	105.6	105.7	94.4	88.3
Unusual items (Note 7)	7.3				(3.0)	2.2	7.9
Income taxes (Note 8)	(21.9)	(18.0)	(31.8)	(17.1)	(20.9)	(16.9)	(14.8)
Net income before discontinued operations and dividends to policyowners							
	53.1	42.8	93.4	88.5	81.8	79.7	81.4
Gain (loss) on discontinued operations (Note 9)					2.9	(2.2)	(4.2)
Net income before dividends to policyowners							
	53.1	42.8	93.4	88.5	84.7	77.5	77.2
Dividends to policyowners	13.4	12.0	23.7	23.1	24.8	26.0	26.1
Net income for the year	39.7	30.8	69.7	65.4	59.9	51.5	51.1
Surplus at beginning	570.5	498.4	498.4	433.0	355.6	304.1	253.0
Impact of change in accounting policy (Note 3)		2.4	2.4				
Increase resulting from amalgamation (Note 4)					17.5		
Dividends on preferred equity securities Conversion expenses	(0.2)						
	(0.6)						
Surplus at end (Note 10)	\$ 609.4	\$ 531.6	\$ 570.5	\$ 498.4	\$ 433.0	\$ 355.6	\$ 304.1

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

CONSOLIDATED BALANCE SHEETS

	As at June 30, 1999	As at December 31,				
	(unaudited)	1998	1997	1996	1995	1994
		(in millions of dollars)				
Assets						
Investments						
Bonds (Notes 11 and 13)	\$ 4,231.7	\$ 3,740.2	\$3,701.1	\$3,693.9	\$3,359.7	\$3,028.4
Stocks and equity indices (Note 11)	551.0	399.2	284.7	195.0	135.6	133.0
Mortgage loans (Notes 11 and 14)	3,296.5	2,833.3	2,698.4	2,702.1	2,633.0	2,678.2
Real estate (Notes 11 and 15)	379.5	323.7	313.0	288.4	265.0	282.1
Policy loans	121.8	120.0	109.7	107.8	99.0	97.2
Short-term investments and cash	361.2	347.1	165.6	133.8	191.9	124.6
Investments in affiliated companies (Note 16)				13.6	26.6	28.7
Investment fund (Note 17)	61.4	64.5	68.5	60.5	60.6	60.7
	<u>9,003.1</u>	<u>7,828.0</u>	<u>7,341.0</u>	<u>7,195.1</u>	<u>6,771.4</u>	<u>6,432.9</u>
Other assets						
Investment income receivable	85.5	79.7	82.9	92.9	91.2	83.5
Fixed assets (Note 18)	29.3	29.7	32.3	30.5	24.4	23.2
Amounts receivable	139.5	94.0	91.1	90.0	84.2	76.0
Goodwill	50.6	25.0	26.5	29.4	41.0	42.0
Miscellaneous (Note 19)	41.4	28.9	26.3	24.0	18.4	18.5
	<u>346.3</u>	<u>257.3</u>	<u>259.1</u>	<u>266.8</u>	<u>259.2</u>	<u>243.2</u>
General fund assets	<u>\$ 9,349.4</u>	<u>\$ 8,085.3</u>	<u>\$7,600.1</u>	<u>\$7,461.9</u>	<u>\$7,030.6</u>	<u>\$6,676.1</u>
Segregated funds assets	<u>\$ 3,147.1</u>	<u>\$ 2,540.6</u>	<u>\$2,044.9</u>	<u>\$1,207.5</u>	<u>\$ 778.1</u>	<u>\$ 546.6</u>
Liabilities						
Actuarial liabilities (Note 20)						
Provisions for future policy benefits	\$ 7,468.2	\$ 6509.0	\$ 6302.6	\$ 6317.6	\$ 6084.7	\$ 5797.4
Provisions for dividends to policyowners and experience refunds	43.9	41.3	37.3	46.7	29.6	52.5
Provisions for policy benefits in process of payment	82.8	47.9	47.2	45.1	43.8	40.4
Premiums paid in advance and amounts on deposit	176.7	179.6	168.2	157.2	168.2	163.2
	<u>7,771.6</u>	<u>6,777.8</u>	<u>6,555.3</u>	<u>6,566.5</u>	<u>6,326.3</u>	<u>6,053.5</u>
Other liabilities						
Unearned premiums	5.2	31.9	32.2	35.2	29.3	23.2
Other contractual liabilities	7.4	17.7	14.5	17.6	13.6	10.2
Long-term debt (Note 21)	32.5	33.1	35.0	36.8	45.2	47.1
Accounts payable	118.3	99.4	95.3	95.8	80.8	81.5
Bank overdraft and loan	29.6	18.4	17.7	20.0	20.1	6.4
Future income tax liability (Note 8)	138.6	95.2				
Miscellaneous	5.2	16.0	14.1	16.2	13.3	18.1
	<u>336.8</u>	<u>311.7</u>	<u>208.8</u>	<u>221.6</u>	<u>202.3</u>	<u>186.5</u>
Deferred credits (Note 22)	362.5	302.6	219.5	124.9	80.9	64.5
Subordinated debentures (Note 23)	185.0	110.0	110.0	110.0	60.0	60.0
Policyowners' equity						
Currency translation account	9.1	12.7	8.1	5.9	5.5	7.5
Preferred equity securities (Note 24)	75.0					
Surplus (Note 10)	609.4	570.5	498.4	433.0	355.6	304.1
	<u>693.5</u>	<u>583.2</u>	<u>506.5</u>	<u>438.9</u>	<u>361.1</u>	<u>311.6</u>
General fund liabilities and policyowners' equity	<u>\$ 9,349.4</u>	<u>\$ 8,085.3</u>	<u>\$7,600.1</u>	<u>\$7,461.9</u>	<u>\$7,030.6</u>	<u>\$6,676.1</u>
Segregated funds liabilities	<u>\$ 3,147.1</u>	<u>\$ 2,540.6</u>	<u>\$2,044.9</u>	<u>\$1,207.5</u>	<u>\$ 778.1</u>	<u>\$ 546.6</u>

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Six months ended		Years ended December 31,				
	June 30,						
	1999	1998	1998	1997	1996	1995	1994
	(unaudited)		(in millions of dollars)				
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES							
Operating							
Net income before discontinued operations	\$ 39.7	\$ 30.8	\$ 69.7	\$ 65.4	\$ 57.0	\$ 53.7	\$ 55.3
Gain on business disposal	(7.3)						
Items not affecting cash							
Increase (decrease) in policy liabilities	207.8	135.8	276.2	(35.3)	78.6	279.9	176.8
Net gain on sale of investments and increase in value accounted for	(74.2)	(55.3)	(120.1)	(89.5)	(66.4)	(62.4)	(69.8)
Future income taxes	(3.6)	7.7	9.3				
Other	6.2	(9.3)	(1.0)	3.5	19.2	14.4	6.4
	168.6	109.7	234.1	(55.9)	88.4	285.6	168.7
Changes in non-cash operating working capital items	(32.3)	(30.4)	26.6	(0.5)	(2.0)	(8.8)	8.9
Discontinued operations					1.1	(1.8)	(6.3)
	136.3	79.3	260.7	(56.4)	87.5	275.0	171.3
Investing							
Net proceeds on business disposal	48.9						
Net assets disposed of on sale of a business	(41.7)						
Net disposal (acquisition) of bonds	(143.2)	26.9	139.4	149.7	(128.6)	(280.8)	(184.3)
Net sale (acquisition) of stocks and equity indices	98.7	(72.1)	(102.6)	(53.6)	(35.1)	26.8	(15.6)
Net decrease (increase) in mortgage loans	(43.5)	(60.9)	(99.5)	22.8	(25.6)	26.4	(36.3)
Disposal of (additions to) real estate and fixed assets	(9.0)	23.1	(10.5)	(44.8)	(13.8)	6.4	(8.7)
Acquisition of investment fund units							(60.0)
Disposal of ownership interest in affiliated companies			0.6	16.4	31.6		32.3
Business acquisition	(282.3)						
Net decrease (increase) in policy loans ..	(6.0)	(7.7)	(5.4)	1.8	(0.4)		(2.0)
Cash resulting from amalgamation	95.6				4.7		
	(282.5)	(90.7)	(78.0)	92.3	(167.2)	(221.2)	(274.6)
Financing							
Issue of preferred equity securities	75.0						
Dividend on preferred equity securities ..	(0.3)						
Increase (decrease) in long-term debt	(0.6)	(0.9)	(1.9)	(1.8)	(27.2)	(2.0)	4.8
Issue of subordinated debentures	75.0				50.0		60.0
	149.1	(0.9)	(1.9)	(1.8)	22.8	(2.0)	64.8
Increase (decrease) in cash	2.9	(12.3)	180.8	34.1	(56.9)	51.8	(38.5)
Cash position at beginning	328.7	147.9	147.9	113.8	170.7	118.9	157.4
Cash position at end⁽¹⁾							
As previously reported	331.6	135.6	328.7	147.9	113.8	170.7	118.9
Reclassification of discontinued operations						1.1	(0.7)
As restated	\$ 331.6	\$ 135.6	\$ 328.7	\$ 147.9	\$ 113.8	\$ 171.8	\$ 118.2

(1) Cash is made up of short-term investments less bank overdraft and loan.

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

Notes to Consolidated Financial Statements

1. STATUS AND NATURE OF ACTIVITIES

The Company, a mutual life insurance company incorporated under *An Act respecting insurance* (Québec), constitutes, with its subsidiaries (the “Group”), a group of companies engaged mainly in the development, commercialization and distribution of insurance and annuity products. The operations of the life insurance line of business extends throughout Canada and the western United States, while general insurance operations are concentrated in Québec.

2. ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with generally accepted accounting principles and maintain principles particular to each of the entities included in the consolidation, namely:

- life insurance companies;
- general insurance companies.

These principles are as follows:

Consolidation principles

Ownership interest, other than portfolio investments in common and preferred stocks, are recorded using the following methods:

- the accounts of subsidiaries are consolidated;
- the accounts of joint ventures are consolidated on a proportionate basis.

Matching of assets to liabilities

To properly manage the risks of interest rate fluctuations and fund availability, the Company maintains a system to match its assets to its actuarial liabilities and long-term debt, hedges its liabilities until they expire and uses derivative products as complementary management tools. Consequently, assets are chosen on the basis of amount, cash flow and return in order to correspond to the characteristics of the hedged liabilities. The accounting policies for derivative financial instruments used for hedging correspond to those used for the underlying hedged position. Therefore, any change in market value of the assets held for hedging purposes will have little impact on the financial position of the Company and on its ability to honour its obligations. Finally, in the evaluation of its actuarial liabilities, as described in Note 20 below, the Company takes into account the level of matching reached between assets and liabilities.

Credit risk

The Company maintains provisions for credit losses, including losses of principal and interest on bonds, mortgage loans and real estate acquired by foreclosure. Provisions for credit losses consist of specific provisions for loans and debt securities considered to be impaired and a general provision for other future potential credit losses.

The carrying value of loans and debt securities considered by the Company to be impaired is reduced by specific provisions to the value estimated to be realizable in the normal course of operations. A loan is considered to be impaired when if, as a result of a deterioration in credit quality, there is no longer reasonable assurance of timely collection of the full amount of principal and interest. Any loan on which contractual payments are in arrears for 90 days or more is assumed to be impaired. In addition, the Company considers other factors in determining if a loan is impaired including the overall credit quality of the borrower and the fair value of the property given as security.

A general provision, included as a component of actuarial liabilities, is made for other potential future losses on loans and debt securities.

Bonds

Bonds are recorded at cost, adjusted for amortization of premiums and discounts and a provision for contingent losses.

Gains and losses realized on the sale of such securities by the life insurance companies are deferred and gradually amortized to income over the remaining term of the securities sold, up to a maximum of 20 years. Gains and losses on securities held by other companies in the Group are recorded directly in the income statement. Permanent declines in value are taken into account when recognized and are charged to operations of that year.

Stocks and equity indices

Stocks and equity indices held in the life insurance companies’ portfolios includes increases or decreases in value under the moving average market value method using a 15% annual rate. Realized gains and losses on the sale of such stocks are deferred and amortized to income using the diminishing balance method at the annual rate of 15%.

Stocks held to cover certain specific commitments are recorded at market value and any variation is recorded directly in the income statement.

Stocks held by other companies in the Group are recorded at cost; gains and losses realized on the sale of such stocks are recorded directly in the income statement.

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

Notes to Consolidated Financial Statements — (continued)

2. ACCOUNTING POLICIES — (continued)

Mortgage loans

Mortgage loans are presented at the amount of the principal balance receivable, net of a provision for contingent losses and unamortized premiums and discounts. Restructured mortgage loans are also adjusted for unamortized discounts representing interest concessions.

Realized gains and losses on the sale of such loans by the life insurance companies are deferred and gradually amortized to income over the remaining life of the loans sold. Those realized by other companies in the Group are recorded directly in the income statement.

Real estate

The value of real estate held for investment by the life insurance companies is based on market value, which is determined every three years. The increase or decrease in value is recognized using the moving average market value method using a 10% annual rate.

Gains and losses realized on the sale of these investments are deferred and amortized to income using the diminishing balance method at the annual rate of 10%.

Real estate held by other companies in the Group is recorded at cost. Real estate acquired as settlement of loans is recorded at the lower of estimated net realizable value and the outstanding balance of the loan. Realized gains and losses on the sale of these investments are charged directly in the income statement.

Policy loans

Policy loans are recorded at the amount of the outstanding balance and are fully covered by the cash surrender value of insurance policies.

Investment fund

The investment fund consists of accrued revenues, receivables from decline in value and investment securities used as the main basis to calculate variable interest on the subordinated debenture whose maturity has been deferred to 2010. Investment securities are recorded at market value. Any increase or decrease in value and gains and losses realized on the sale of such securities are applied directly to operations for the year in which they occur.

Fixed assets

Fixed assets, consisting mainly of leasehold improvements to real estate held for investment and office furniture and equipment, are recorded at historical cost less accumulated depreciation and amortization. They are principally depreciated under the straight-line method over their estimated useful lives or the original term of their related lease agreements.

Goodwill

Goodwill is represented by the excess cost of the subsidiaries' stocks over the book value of the net assets acquired and is amortized using the straight-line method over periods not exceeding 40 years. Goodwill is written down to its fair value when there has been a permanent decline in value based on forecasted investment returns, taking into account related risks.

Segregated funds

Funds from certain group or individual pension plans issued by the life insurance companies are invested in separate portfolios at the option of the policyholder. The total value of these additional assets, managed by the Company but not included in the general funds, is determined at market value.

Provisions for future policy benefits

Provisions for future policy benefits represent the amount which, together with future premiums and investment income, provide for all commitments under contracts in force. These provisions are established using the policy premium method.

These provisions are calculated based on assumptions that are regularly tested and, if need be, modified to reflect changes in plan experience.

Income taxes

During 1998, the Company adopted the liability method in order to comply with the new CICA requirements concerning income taxes. Current income taxes are based on taxable income and future income taxes on timing differences. The income tax rates used to evaluate income tax assets and liabilities are those in effect at the balance sheet date.

In addition to income taxes, charges to operations include the tax on capital imposed on financial institutions, the large corporations tax and the investment income tax. As a result, the charge to the income statement differs from the charge that would otherwise be obtained at statutory rates.

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

Notes to Consolidated Financial Statements — (continued)

2. ACCOUNTING POLICIES — (continued)

Foreign currencies

Assets and liabilities denominated in foreign currency are translated into Canadian dollars at the year-end exchange rate while revenues and expenses are translated at the rate of exchange in effect on the dates they occur. Gains and losses resulting from translation of balance sheet items related to activities maintained outside Canada are recorded in the Currency translation account, a component of Policyowners' equity, whereas those related to operations are included in the statement of income.

Insurance and annuity premiums

Insurance premiums are made up of the amounts received on contracts in force less the share ceded to reinsurers for insuring a part of the risk. Annuity premiums represent the total amounts received on annuity policies in force.

Investment income

Investment income is shown net of related expenses.

Net transfer to segregated funds

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

Pension plans

The Company maintains several retirement plans, including defined benefit and defined contribution plans, for its employees. Pension costs related to current service are charged to income as services are rendered. Variations between plan experience and actuarial estimates as well as past service costs, if any, are amortized to income over the estimated average remaining service lives of the employee groups covered by the plan.

3. CHANGE IN ACCOUNTING POLICY

During 1998, the Company adopted the liability method in order to comply with the new CICA requirements concerning income taxes, the major impact being the presentation of a future tax asset or liability item. This change in accounting policy has been applied retroactively with no restatement of prior years' financial statements. As a result of this change at the beginning of the year, future income tax liabilities increased by \$88.9 million, offset by a \$91.3 million reduction in actuarial liabilities and a \$2.4 million increase in the surplus.

4. AMALGAMATION

On February 1, 1996, the Company and The Solidarity Life Insurance Company merged to form a new legal entity, Industrial-Alliance Life Insurance Company. Also, on December 16, 1996, the Company acquired, for \$3.1 million in cash, all of the life insurance business of The Canadian Union Insurance Company, in which it already held a 50% ownership interest.

In addition, on January 6, 1999, the Company entered into an agreement, effective January 1, 1999, to acquire the Canadian business of Seaboard, a life insurance company. This acquisition, at a purchase price of \$201.8 million in cash, resulted in the recording of \$32.3 million in goodwill.

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

Notes to Consolidated Financial Statements — (continued)

4. AMALGAMATION — (continued)

These amalgamations are accounted for under the purchase method, so that the value of certain assets acquired and liabilities assumed are revised according to the cost determined by the Company. The assets acquired and liabilities assumed by the purchaser are as follows:

	1999	1996		
	Seaboard	Solidarity	Canadian Union	Total
	(in millions of dollars)			
ASSETS ACQUIRED				
Bonds	\$ 287.7	\$111.4	\$33.8	\$145.2
Mortgage loans	439.3	42.2	1.1	43.2
Stocks	256.1	3.1		3.1
Real estate	51.9	24.4		24.4
Other investments	93.1	7.1	0.6	7.7
Controlled companies		18.3		18.3
Other assets	35.0	7.6	1.0	8.6
	<u>1,163.1</u>	<u>\$214.0</u>	<u>\$36.5</u>	<u>\$250.5</u>
LIABILITIES ASSUMED				
Actuarial liabilities	\$ 829.9	\$163.8	\$32.4	\$196.2
Other liabilities	75.0	29.3	4.1	33.4
Deferred credits	33.7	3.4		3.4
Subordinated debentures	55.0			
Policyowners' equity		17.5		17.5
	<u>\$ 993.6</u>	<u>\$214.0</u>	<u>\$36.5</u>	<u>\$250.5</u>
Net assets acquired	169.5			
Goodwill	32.3			
Purchase price	<u>\$ 201.8</u>			

5. INSURANCE AND ANNUITY PREMIUMS

	Six months ended June 30,		Years ended December 31,				
	1999	1998	1998	1997	1996	1995	1994
	(unaudited)		(in millions of dollars)				
TOTAL PREMIUMS							
Insurance	\$ 418.1	\$ 297.9	\$ 623.5	\$ 559.4	\$ 541.2	\$ 502.5	\$ 490.5
Annuities	624.9	669.5	1,112.2	1,027.7	532.5	591.9	555.4
General insurance	26.2	25.5	52.5	56.8	59.4	50.6	43.8
	<u>\$1,069.2</u>	<u>\$ 992.9</u>	<u>\$1,788.2</u>	<u>\$1,643.9</u>	<u>\$1,133.1</u>	<u>\$1,145.0</u>	<u>\$1,089.7</u>

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

Notes to Consolidated Financial Statements — (continued)

6. INVESTMENT INCOME

	Six months ended June 30,		Years ended December 31,				
	1999	1998	1998	1997	1996	1995	1994
	(unaudited)						
			(in millions of dollars)				
Bonds	\$153.9	\$146.1	\$291.8	\$306.3	\$313.2	\$292.1	\$255.4
Mortgage loans	124.9	107.6	219.7	224.0	239.6	249.6	256.4
Real estate	9.1	6.5	13.6	14.6	13.7	16.0	11.5
Stocks	9.7	5.7	12.7	10.7	10.0	3.9	3.6
Short-term investments	10.3	3.3	9.0	4.6	7.0	15.1	7.8
Increase (decrease) in market value	3.3	3.7	2.6	(3.6)	(0.5)	0.4	4.7
Amortization of deferred gains	28.1	21.9	44.9	39.7	23.2	18.8	18.2
Other	12.7	2.2	16.7	6.2	6.1	6.8	7.7
	352.0	297.0	611.0	602.5	612.3	602.7	565.3
Provision for credit losses	(0.5)	0.5	(1.1)	(2.5)	(12.3)	(9.9)	(2.2)
Investment charges	(8.8)	(6.5)	(12.9)	(13.2)	(12.3)	(13.6)	(14.6)
	<u>\$342.7</u>	<u>\$291.0</u>	<u>\$597.0</u>	<u>\$586.8</u>	<u>\$587.7</u>	<u>\$579.2</u>	<u>\$548.5</u>

7. UNUSUAL ITEMS

This item is made of the following non-recurring gains (losses):

	Six months ended June 30,		Years ended December 31,				
	1999	1998	1998	1997	1996	1995	1994
	(unaudited)						
			(in millions of dollars)				
Gain on out-of-court settlement of assessments	\$	\$	\$	\$	\$ 1.3	\$ 5.4	\$
Gain on termination of a retirement plan						4.9	
Net gain (loss) on settlement of lawsuits					5.7	(2.1)	
Decrease in goodwill resulting principally from settlement of lawsuits					(10.0)		
Gain on sale of affiliated companies	7.3						24.8
Other than temporary decline in value of investments						(6.0)	(16.9)
	<u>\$ 7.3</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (3.0)</u>	<u>\$ 2.2</u>	<u>\$ 7.9</u>

8. INCOME TAXES

Income taxes charged to the statement of income reflect a lower effective tax rate than the combined federal and provincial tax rate for the following reasons:

	Six months ended June 30,		Years ended December 31,				
	1999	1998	1998	1997	1996	1995	1994
	(unaudited)						
			(in millions of dollars)				
Provision based on the combined rate	\$ 23.9	\$ 18.7	\$ 40.2	\$ 33.6	\$ 33.6	\$ 26.5	\$ 25.3
Timing differences				(16.2)	(6.5)	(12.9)	(5.0)
Non-taxable income	(8.2)	(5.1)	(13.2)	(8.8)	(5.9)	(2.0)	(4.5)
Tax benefit on previously realized losses			(6.9)		(8.1)	(1.1)	(9.9)
Investment income tax	3.8	3.2	6.7	6.4	5.9	5.4	5.0
Large corporations and financial institutions taxes	2.4	1.2	5.0	2.1	1.9	1.0	3.9
	<u>\$ 21.9</u>	<u>\$ 18.0</u>	<u>\$ 31.8</u>	<u>\$ 17.1</u>	<u>\$ 20.9</u>	<u>\$ 16.9</u>	<u>\$ 14.8</u>

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

Notes to Consolidated Financial Statements — (continued)

8. INCOME TAXES — (continued)

	Six months ended June 30,		Years ended December 31,				
	1999	1998	1998	1997	1996	1995	1994
	(unaudited)		(in millions of dollars)				
Total taxes charged to operations are composed of the following items:							
Future income taxes	\$ (3.6)	\$ 7.7	\$ 9.2	\$	\$	\$	\$
Income taxes payable	25.5	10.3	22.6	17.1	20.9	16.9	14.8
	<u>\$ 21.9</u>	<u>\$ 18.0</u>	<u>\$ 31.8</u>	<u>\$ 17.1</u>	<u>\$ 20.9</u>	<u>\$ 16.9</u>	<u>\$ 14.8</u>
The future tax liability presented on the balance sheet is related to the following items:							
Actuarial liabilities	\$145.2	\$ 86.7	\$ 94.2	\$	\$	\$	\$
Real estate	35.8	40.4	42.1				
Stocks and other	(42.4)	(32.5)	(41.1)				
	<u>\$138.6</u>	<u>\$ 94.6</u>	<u>\$ 95.2</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

9. DISCONTINUED OPERATIONS

On April 24, 1996 and May 17, 1996, respectively, the Company entered into agreements with FoxMeyer Canada Inc. and CGI Group Inc. for the sale, as of February 29, 1996, of substantially all data processing segment activities. The gains (losses) relating to these discontinued operations are as follows:

	Six months ended June 30,		Years ended December 31,				
	1999	1998	1998	1997	1996	1995	1994
	(unaudited)		(in millions of dollars)				
Gain (loss) on discontinued data processing operations	\$	\$	\$	\$	\$ 2.9	\$ (2.2)	\$ (4.2)

10. SURPLUS

To conform to Québec statutory requirements with respect to provisions for future policy benefits, a portion of the surplus is appropriated; this portion is as follows:

	As at June 30,	As at December 31,				
	1999	1998	1997	1996	1995	1994
	(unaudited)	(in millions of dollars)				
Appropriated surplus	<u>\$126.8</u>	<u>\$123.7</u>	<u>\$115.6</u>	<u>\$ 85.4</u>	<u>\$ 60.6</u>	<u>\$ 45.5</u>

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

Notes to Consolidated Financial Statements — (continued)

11. INVESTMENTS

	As at June 30, 1999 (unaudited)	As at December 31, 1998 1997 1996 1995 1994				
		(in millions of dollars)				
Book value						
Bonds	\$4,231.7	\$3,740.2	\$3,701.1	\$3,693.9	\$3,359.7	\$3,028.4
Stocks and equity indices	551.0	399.2	284.7	195.0	135.6	133.0
Mortgage loans	3,296.5	2,833.3	2,698.4	2,702.1	2,633.0	2,678.2
Real estate held for investment	360.7	286.3	277.6	260.3	238.5	245.7
Real estate acquired to settle loans	18.8	37.4	35.4	28.1	26.5	36.4
	<u>\$8,458.7</u>	<u>\$7,296.4</u>	<u>\$6,997.2</u>	<u>\$6,879.4</u>	<u>\$6,393.3</u>	<u>\$6,121.7</u>
Market value						
Bonds	\$4,873.4	\$4,572.3	\$4,463.6	\$4,186.5	\$3,683.4	\$2,990.9
Stocks and equity indices	562.7	407.6	288.8	203.7	141.2	146.0
Mortgage loans	3,345.6	2,933.8	2,806.5	2,849.9	2,728.0	2,666.7
Real estate held for investment	383.4	296.0	291.4	268.0	239.2	256.0
Real estate acquired to settle loans	21.2	42.0	37.8	30.1	26.4	39.0
	<u>\$9,186.3</u>	<u>\$8,251.7</u>	<u>\$7,888.1</u>	<u>\$7,538.2</u>	<u>\$6,818.2</u>	<u>\$6,098.6</u>

12. NON-PERFORMING ASSETS AND PROVISIONS FOR CREDIT LOSSES

Non-performing assets

Bonds and mortgage loans three or more months in arrears, as well as restructured loans and other investment securities in default are considered to be non-performing assets. These investments, net of related provisions, are as follows:

	As at June 30, 1999 (unaudited)	As at December 31, 1998 1997 1996 1995 1994				
		(in millions of dollars)				
Bonds	\$ 4.6	\$ 8.5	\$ 4.9	\$ 5.0	\$ 1.2	\$ 1.5
Conventional mortgage loans	9.3	14.9	45.3	46.2	23.6	18.7
Real estate acquired to settle loans	18.8	37.4	35.4	28.1	26.5	36.4
Affiliated company				13.0	13.0	13.0
	<u>\$ 32.7</u>	<u>\$ 60.8</u>	<u>\$ 85.6</u>	<u>\$ 92.3</u>	<u>\$ 64.3</u>	<u>\$ 69.6</u>

Provisions for credit losses

Total provisions, including impairments in value of restructured loans, are as follows:

	As at June 30, 1999 (unaudited)	As at December 31, 1998 1997 1996 1995 1994				
		(in millions of dollars)				
Bonds	\$ 2.1	\$ 3.0	\$ 2.5	\$ 3.1	\$ 19.6	\$ 12.5
Conventional mortgage loans	2.8	2.0	18.4	22.9	10.5	0.7
Real estate acquired to settle loans	7.2	14.9	9.4	8.7	4.0	7.0
Other	2.3	2.3		0.2	0.2	
	<u>\$ 14.4</u>	<u>\$ 22.2</u>	<u>\$ 30.3</u>	<u>\$ 34.9</u>	<u>\$ 34.3</u>	<u>\$ 20.2</u>

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

Notes to Consolidated Financial Statements — (continued)

13. BONDS

Breakdown of bonds by credit rating and category of issuer:

	As at June 30, 1999	As at December 31,				
		1998	1997	1996	1995	1994
	(unaudited)	(in millions of dollars)				
Credit rating						
A and higher	\$3,904.1	\$3,426.8	\$3,373.8	\$3,343.3	\$3,032.9	\$2,695.7
BBB	319.3	303.8	316.7	325.4	295.6	274.4
BB and lower	8.3	9.6	10.6	25.2	31.2	58.3
	<u>\$4,231.7</u>	<u>\$3,740.2</u>	<u>\$3,701.1</u>	<u>\$3,693.9</u>	<u>\$3,359.7</u>	<u>\$3,028.4</u>
Category of issuer						
Governments or guaranteed by them	2,184.1	2,166.2	1,975.2	2,185.8	1,755.5	1,442.6
Municipalities	77.8	81.9	124.4	189.8	249.3	252.1
Corporations	1,969.8	1,492.1	1,601.5	1,318.3	1,354.9	1,333.7
	<u>\$4,231.7</u>	<u>\$3,740.2</u>	<u>\$3,701.1</u>	<u>\$3,693.9</u>	<u>\$3,359.7</u>	<u>\$3,028.4</u>

14. MORTGAGE LOANS

Breakdown of mortgage loans by category and type of property:

	As at June 30, 1999	As at December 31,				
	(unaudited)	1998	1997	1996	1995	1994
		(in millions of dollars)				
Insured mortgages						
Residential	\$ 363.5	\$ 320.1	\$ 328.2	\$ 336.2	\$ 285.6	\$ 280.5
Multi-residential	946.1	848.2	794.4	786.9	722.8	688.2
Commercial	12.5	6.8	9.8	12.1	14.8	17.9
	<u>1,322.1</u>	<u>1,175.1</u>	<u>1,132.4</u>	<u>1,135.2</u>	<u>1,023.2</u>	<u>986.6</u>
Conventional mortgages						
Residential	195.6	191.3	205.4	226.8	296.5	330.0
Multi-residential	963.1	807.2	698.9	706.2	687.9	680.6
Commercial	815.7	659.7	661.7	633.9	625.4	681.0
	<u>1,974.4</u>	<u>1,658.2</u>	<u>1,566.0</u>	<u>1,566.9</u>	<u>1,609.8</u>	<u>1,691.6</u>
	<u>\$3,296.5</u>	<u>\$2,833.3</u>	<u>\$2,698.4</u>	<u>\$2,702.1</u>	<u>\$2,633.0</u>	<u>\$2,678.2</u>

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

Notes to Consolidated Financial Statements — (continued)

15. REAL ESTATE

Breakdown of real estate by category and type of property:

	As at June 30, 1999	As at December 31,				
		1998	1997	1996	1995	1994
	(unaudited)	(in millions of dollars)				
Real estate held for investment						
Office	\$237.1	\$213.2	\$219.6	\$223.5	\$205.3	\$209.3
Retail	73.2	6.1	17.2	19.4	20.3	23.7
Industrial	13.0	3.1	3.4	3.6	1.2	1.2
Land	10.9	10.7	9.1	8.9	7.7	7.6
Other	26.5	53.2	28.3	4.9	4.0	3.9
	<u>360.7</u>	<u>286.3</u>	<u>277.6</u>	<u>260.3</u>	<u>238.5</u>	<u>245.7</u>
Real estate acquired to settle loans						
Residential*	1.8	7.2	11.1	16.3	13.9	23.4
Multi-residential*	6.4	6.4	8.5			
Commercial	10.6	23.8	15.8	11.8	12.6	13.0
	<u>18.8</u>	<u>37.4</u>	<u>35.4</u>	<u>28.1</u>	<u>26.5</u>	<u>36.4</u>
	<u>\$379.5</u>	<u>\$323.7</u>	<u>\$313.0</u>	<u>\$288.4</u>	<u>\$265.0</u>	<u>\$282.1</u>

* Data prior to 1997 have not been restated.

16. INVESTMENTS IN AFFILIATED COMPANIES

	As at December 31,				
	1998	1997	1996	1995	1994
(in millions of dollars)					
Genecan Financial Corporation, at net realizable value	\$	\$	\$ 13.0	\$ 13.0	\$ 13.0
IST Group Inc., at equity				13.6	15.7
Other, at equity			0.6		
	<u>\$</u>	<u>\$</u>	<u>\$ 13.6</u>	<u>\$ 26.6</u>	<u>\$ 28.7</u>

From 1993 to December 1996, the investment in discontinued trust activities was presented at net realizable value since the Company no longer had the authority to establish the strategic investment, financing or operating policies of this subsidiary, which was in the process of being wound up.

The principal assets and liabilities of Genecan Financial Corporation and of IST Group Inc. are as follows:

	As at December 31,				
	1998	1997	1996	1995	1994
(in millions of dollars)					
ASSETS					
Investments	\$	\$ 4.2	\$100.6	\$122.0	\$183.2
Other assets		1.6	6.2	19.7	24.3
	<u>\$</u>	<u>\$ 5.8</u>	<u>\$106.8</u>	<u>\$141.7</u>	<u>\$207.5</u>
LIABILITIES					
Current liabilities	\$	\$ 0.5	\$ 99.3	\$118.9	\$104.3
Debentures (capital and interest)		5.3	148.7	140.2	131.8
Excess of liabilities over assets			(141.2)	(117.4)	(28.6)
	<u>\$</u>	<u>\$ 5.8</u>	<u>\$106.8</u>	<u>\$141.7</u>	<u>\$207.5</u>

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

Notes to Consolidated Financial Statements — (continued)

16. INVESTMENTS IN AFFILIATED COMPANIES — (continued)

The operations of Genecan Financial Corporation, in the process of being wound up, are summarized as follows:

	Years ended December 31,				
	1998	1997	1996	1995	1994
	(in millions of dollars)				
Revenue	\$	\$ 19.0	\$ 22.0	\$ 21.2	\$ 20.2
Expenses					
Decline in value and (gain) loss on investment securities		(11.8)	2.4	76.8	2.1
Loss on discontinued operations					5.9
Other		18.1	29.0	31.2	31.5
		6.3	31.4	108.0	39.5
Net earnings (loss)	\$	\$ 12.7	\$ (9.4)	\$ (86.8)	\$ (19.3)

17. INVESTMENT FUND

	As at June 30,	As at December 31,				
	1999	1998	1997	1996	1995	1994
	(unaudited)	(in millions of dollars)				
Investment securities (at market value)	\$60.6	\$64.2	\$68.2	\$58.4	\$49.3	\$56.5
Account receivable and accrued revenue	0.8	0.3	0.3	2.1	11.3	4.2
	<u>\$61.4</u>	<u>\$64.5</u>	<u>\$68.5</u>	<u>\$60.5</u>	<u>\$60.6</u>	<u>\$60.7</u>

18. FIXED ASSETS

	As at June 30,	As at December 31,				
	1999	1998	1997	1996	1995	1994
	(unaudited)	(in millions of dollars)				
Cost						
Leasehold improvements	\$27.5	\$27.2	\$31.5	\$31.6	\$23.5	\$21.0
Office furniture and equipment	56.7	52.4	47.3	53.7	48.2	47.7
	<u>84.2</u>	<u>79.6</u>	<u>78.8</u>	<u>85.3</u>	<u>71.7</u>	<u>68.7</u>
Accumulated depreciation and amortization						
Leasehold improvements	15.6	14.8	13.8	14.7	11.6	9.8
Office furniture and equipment	39.3	35.1	32.7	40.1	35.7	35.7
	<u>54.9</u>	<u>49.9</u>	<u>46.5</u>	<u>54.8</u>	<u>47.3</u>	<u>45.5</u>
Net value						
Leasehold improvements	11.9	12.4	17.7	16.9	11.9	11.2
Office furniture and equipment	17.4	17.3	14.6	13.6	12.5	12.0
	<u>\$29.3</u>	<u>\$29.7</u>	<u>\$32.3</u>	<u>\$30.5</u>	<u>\$24.4</u>	<u>\$23.2</u>

19. MISCELLANEOUS

	As at June 30,	As at December 31,				
	1999	1998	1997	1996	1995	1994
	(unaudited)	(in millions of dollars)				
Deferred expenses	\$20.5	\$12.3	\$11.5	\$11.8	\$ 9.8	\$ 8.4
Deferred pension costs	12.7	12.1	9.6	7.1	5.2	4.7
Other	8.2	4.5	5.2	5.1	3.4	5.4
	<u>\$41.4</u>	<u>\$28.9</u>	<u>\$26.3</u>	<u>\$24.0</u>	<u>\$18.4</u>	<u>\$18.5</u>

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

Notes to Consolidated Financial Statements — (continued)

20. ACTUARIAL LIABILITIES*

Actuarial liabilities represent the amounts which, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends and expenses on policies in force. Actuarial liabilities are determined using generally accepted actuarial practices according to standards established by the Canadian Institute of Actuaries.

The composition of the Company's actuarial liabilities and the corresponding assets are as follows:

As at June 30, 1999					
	INDIVIDUAL		GROUP		Total
	Life and Health	Annuities	Life and Health	Annuities	
(unaudited)					
(in millions of dollars)					
Actuarial liabilities					
Canada	\$2,022.8	\$1,858.0	\$584.2	\$2,940.5	\$7,405.5
Outside Canada	123.9	240.3		1.9	366.1
Total	<u>\$2,146.7</u>	<u>\$2,098.3</u>	<u>\$584.2</u>	<u>\$2,942.4</u>	<u>\$7,771.6</u>
Assets supporting actuarial liabilities					
Bonds and other fixed-interest securities	\$1,330.9	\$ 770.9	\$261.4	\$1,689.0	\$4,052.2
Mortgages	419.3	1,261.3	270.7	1,081.4	3,032.7
Stocks and equity indices	242.2	16.9	46.5	43.5	349.1
Real estate	58.3	21.2	0.2	126.7	206.4
Policy loans	95.9	27.1			123.0
Other	0.1	0.9	5.4	1.8	8.2
Total	<u>\$2,146.7</u>	<u>\$2,098.3</u>	<u>\$584.2</u>	<u>\$2,942.4</u>	<u>\$7,771.6</u>
As at December 31, 1998					
	INDIVIDUAL		GROUP		Total
	Life and Health	Annuities	Life and Health	Annuities	
(in millions of dollars)					
Actuarial liabilities					
Canada	\$1,656.2	\$1,477.3	\$512.6	\$2,727.2	\$6,373.3
Outside Canada	141.1	261.8		1.6	404.5
Total	<u>\$1,797.3</u>	<u>\$1,739.1</u>	<u>\$512.6</u>	<u>\$2,728.8</u>	<u>\$6,777.8</u>
Assets supporting actuarial liabilities					
Bonds and other fixed-interest securities	\$1,142.0	\$ 674.2	\$238.8	\$1,557.4	\$3,612.4
Mortgages	355.4	1,001.9	272.2	1,010.7	2,640.2
Stocks and equity indices	158.3	9.6	0.4	43.7	212.0
Real estate	52.6	20.3	1.1	114.7	188.7
Policy loans	88.9	32.2			121.1
Other	0.1	0.9	0.1	2.3	3.4
Total	<u>\$1,797.3</u>	<u>\$1,739.1</u>	<u>\$512.6</u>	<u>\$2,728.8</u>	<u>\$6,777.8</u>

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

Notes to Consolidated Financial Statements — (continued)

20. ACTUARIAL LIABILITIES* — (continued)

As at December 31, 1997					
	INDIVIDUAL		GROUP		Total
	Life and Health	Annuities	Life and Health	Annuities	
	(in millions of dollars)				
Actuarial liabilities					
Canada	\$1,547.9	\$1,739.5	\$506.3	\$2,382.9	\$6,176.6
Outside Canada	116.8	260.2	0.1	1.6	378.7
Total	<u>\$1,664.7</u>	<u>\$1,999.7</u>	<u>\$506.4</u>	<u>\$2,384.5</u>	<u>\$6,555.3</u>
Assets supporting actuarial liabilities					
Bonds and other fixed-interest securities	\$1,071.6	\$ 746.9	\$248.1	\$1,417.4	\$3,484.0
Mortgages	378.5	1,196.1	257.3	828.6	2,660.5
Stocks and equity indices	74.3	9.6	0.5	38.0	122.4
Real estate	45.2	21.1	0.4	98.6	165.3
Policy loans	84.9	24.8			109.7
Other	10.2	1.2	0.1	1.9	13.4
Total	<u>\$1,664.7</u>	<u>\$1,999.7</u>	<u>\$506.4</u>	<u>\$2,384.5</u>	<u>\$6,555.3</u>
As at December 31, 1996					
	INDIVIDUAL		GROUP		Total
	Life and Health	Annuities	Life and Health	Annuities	
	(in millions of dollars)				
Actuarial liabilities					
Canada	\$1,380.9	\$2,072.7	\$499.9	\$2,242.3	\$6,195.8
Outside Canada	99.4	269.0	0.1	2.2	370.7
Total	<u>\$1,480.3</u>	<u>\$2,341.7</u>	<u>\$500.0</u>	<u>\$2,244.5</u>	<u>\$6,566.5</u>
Assets supporting actuarial liabilities					
Bonds and other fixed-interest securities	\$ 933.1	\$1,043.7	\$258.7	\$1,326.1	\$3,561.6
Mortgages	374.7	1,249.5	240.9	786.6	2,651.7
Stocks and equity indices	30.4	6.5		29.9	66.8
Real estate	45.6	16.3	0.3	100.6	162.8
Policy loans	81.1	24.9	0.1		106.1
Other	15.4	0.8		1.3	17.5
Total	<u>\$1,480.3</u>	<u>\$2,341.7</u>	<u>\$500.0</u>	<u>\$2,244.5</u>	<u>\$6,566.5</u>
As at December 31, 1995					
	INDIVIDUAL		GROUP		Total
	Life and Health	Annuities	Life and Health	Annuities	
	(in millions of dollars)				
Actuarial liabilities					
Canada	\$1,193.6	\$2,094.6	\$476.6	\$2,188.6	\$5,953.4
Outside Canada	86.8	283.8	0.1	2.2	372.9
Total	<u>\$1,280.4</u>	<u>\$2,378.4</u>	<u>\$476.7</u>	<u>\$2,190.8</u>	<u>\$6,326.3</u>
Assets supporting actuarial liabilities					
Bonds and other fixed-interest securities	\$ 717.2	\$1,113.2	\$247.8	\$1,322.3	\$3,400.5
Mortgages	416.8	1,223.9	228.7	747.0	2,616.4
Stocks and equity indices	15.7	5.1	0.1	26.6	47.5
Real estate	43.5	9.4		94.3	147.2
Policy loans	73.8	26.5	0.1		100.4
Other	13.4	0.3		0.6	14.3
Total	<u>\$1,280.4</u>	<u>\$2,378.4</u>	<u>\$476.7</u>	<u>\$2,190.8</u>	<u>\$6,326.3</u>

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

Notes to Consolidated Financial Statements — (continued)

20. ACTUARIAL LIABILITIES* — (continued)

The market value of assets supporting actuarial liabilities is as follows. However, this value cannot be compared to the amount of actuarial liabilities since this amount would also increase if the said actuarial liabilities were valued at market value.

	As at June 30, 1999 (unaudited)	As at December 31, 1998 1997 1996 1995			
		(in millions of dollars)			
Market value of assets supporting actuarial liabilities	\$8,403.0	\$7,619.0	\$7,385.0	\$7,179.0	\$6,733.0

Assumptions

Assumptions used in the computation of actuarial liabilities are based on the actuary's best estimates with respect to mortality, morbidity, lapse, investment returns, operating expenses, inflation, dividends to policyowners and income taxes. These assumptions cover the term of the policies being valued.

The following methods were used to establish the most significant assumptions:

Mortality

With respect to individual life insurance, the mortality rates are based on the Company's recent experience.

The assumption used with respect to annuities is based on a combination of the Company's and industry recent experience published by the Canadian Institute of Actuaries. Moreover, the assumption used incorporates a gradual improvement in the future level of mortality.

Morbidity

The assumption is based on the results obtained by the Company and the industry over long periods.

Return on investments

The Company maintains assets that cover the actuarial liabilities. Future investment income can be estimated based on cash flows from these assets which are invested at rates established according to expected capital market returns and to the Company's investment policy.

The Company's financial position may be affected by the level of interest rates. If cash flows cannot be invested at a sufficient rate, the Company's future profitability could be affected. If cash flows resulting from assets supporting actuarial liabilities do not match the timing and amount of policy obligations, the Company may be required to liquidate certain assets.

As indicated in the Matching of assets to liabilities section in Note 2, the Company maintains a strict matching of its assets with its actuarial liabilities to reduce the risk of interest rate fluctuations. Consequently, for all securities matched to liabilities, the difference in duration was just 0.19 years as at June 30, 1999.

Moreover, future returns on investments were calculated by incorporating a credit risk assumption with respect to assets which is in line with the Company's recent experience.

To improve the return on very long-term investments, the Company has chosen to diversify them by asset class. Also, a portion of the long-term actuarial liabilities will be matched to variable income securities. Currently, investments in stocks represent 3% of the Company's total actuarial liabilities.

Income taxes

Actuarial liabilities were determined taking into account the adoption of the liability method. Accordingly, actuarial liabilities are reduced by an amount of \$30.4 million, to reflect the investment income related to assets held to offset future income tax liabilities.

Expenses

Policy maintenance expenses were calculated using internal studies of the breakdown of the Company's expected costs for the current year, with inflation adjustment for future years.

Lapses

Expected lapse rate assumptions for individual insurance are based on results from the Company's annual lapse experience studies.

Lapse assumptions with respect to lapse-supported products are more stringent than the Canadian Institute of Actuaries' minimum standards.

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

Notes to Consolidated Financial Statements — (continued)

20. ACTUARIAL LIABILITIES* — (continued)

Provision for adverse deviation

Each assumption includes a provision for adverse deviation to recognize the uncertainty surrounding the establishment of best estimates, to take into account the possible deterioration of experience and to provide better assurance that the actuarial liabilities will be sufficient to pay future benefits.

Reinsurance

In the normal course of business, the Company uses reinsurance to limit its risk on every insured. For Industrial-Alliance, the risk is generally limited to \$500, National Life to \$400, North West Life of Canada to \$350 (US\$250 for US business), and North West Life of America to US\$250. The Company also has reinsurance agreements covering the financial losses arising from multiple claims due to catastrophic events affecting several insureds.

CHANGES IN ACTUARIAL LIABILITIES

	As at June 30, 1999	As at December 31,			
	(unaudited)	1998	1997	1996	1995
		(in millions of dollars)			
Actuarial liabilities at beginning	\$6,777.8	\$6,555.3	\$6,566.5	\$6,326.3	\$6,053.5
Increase resulting from business acquisition	829.7				
Amalgamation with Solidarity				169.3	
Acquisition of Canadian Union (Life division)				15.6	
Reduction due to business disposal	(47.0)				
Impact of adoption of the liability taxes method		(91.3)			
Impact of changes in assumptions	(5.7)	(7.3)	(3.5)	0.7	(1.8)
Normal changes	216.8	299.2	(19.2)	52.4	283.6
Foreign currency translation		21.9	11.5	2.2	(9.0)
Actuarial liabilities at end	<u>\$7,771.6</u>	<u>\$6,777.8</u>	<u>\$6,555.3</u>	<u>\$6,566.5</u>	<u>\$6,326.3</u>

* Data prior to 1995 have not been restated.

21. LONG-TERM DEBT

	As at June 30, 1999	As at December 31,				
	(unaudited)	1998	1997	1996	1995	1994
		(in millions of dollars)				
Mortgage loans, at various rates up to 11.375%, repayable through to 2002	\$32.5	\$33.1	\$35.0	\$36.8	\$45.0	\$46.9
Other					0.2	0.2
	<u>\$32.5</u>	<u>\$33.1</u>	<u>\$35.0</u>	<u>\$36.8</u>	<u>\$45.2</u>	<u>\$47.1</u>

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

Notes to Consolidated Financial Statements — (continued)

22. DEFERRED CREDITS

Deferred credits represent the unamortized portion of gains and losses realized on the sale of real estate and investment securities. These deferred credits are as follows:

	As at June 30, 1999 (unaudited)	As at December 31, 1998 1997 1996 1995 1994				
		(in millions of dollars)				
Related to actuarial liabilities						
Bonds	\$249.7	\$187.1	\$113.0	\$ 43.0	\$ 20.7	\$ 14.8
Stocks	17.7	16.3	22.9	11.5	2.8	1.9
Mortgage loans	11.5	10.0	8.9	8.9	0.4	(0.1)
Real estate	9.4	11.4				
	<u>288.3</u>	<u>224.8</u>	<u>144.8</u>	<u>63.4</u>	<u>23.9</u>	<u>16.6</u>
Related to policyowners' equity						
Bonds	28.0	30.2	20.7	13.0	9.3	12.2
Stocks	45.6	46.9	53.4	46.9	44.2	20.9
Mortgage loans	0.1	0.1	(0.1)	(1.2)	(0.1)	10.4
Real estate	0.5	0.6	0.7	2.8	3.6	4.4
	<u>74.2</u>	<u>77.8</u>	<u>74.7</u>	<u>61.5</u>	<u>57.0</u>	<u>47.9</u>
	<u>\$362.5</u>	<u>\$302.6</u>	<u>\$219.5</u>	<u>\$124.9</u>	<u>\$ 80.9</u>	<u>\$ 64.5</u>

23. SUBORDINATED DEBENTURES

	As at June 30, 1999 (unaudited)	As at December 31, 1998 1997 1996 1995 1994				
		(in millions of dollars)				
Subordinated debenture, bearing basic interest of 1.25% (1.75% in 1998 and prior years) and variable interest tied primarily to the return on the investment fund redeemable at the option of the Company beginning in February 2004 or repayable on maturity in 2010.....	\$ 60.0	\$ 60.0	\$ 60.0	\$ 60.0	\$ 60.0	\$ 60.0
Series 2 subordinated debenture, bearing interest at 8.40%, redeemable at the option of the Company beginning in June 2001 or repayable on maturity in 2006	50.0	50.0	50.0			
Series 3 subordinated debenture, bearing basic interest of 6.25% plus variable interest of no more than 5.25% under certain conditions, redeemable at the option of the Company beginning in February 2004 or repayable on maturity in 2010.....	75.0					
	<u>\$185.0</u>	<u>\$110.0</u>	<u>\$110.0</u>	<u>\$ 60.0</u>	<u>\$ 6.0</u>	<u>\$ 60.0</u>

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

Notes to Consolidated Financial Statements — (continued)

24. AUTHORIZED PREFERRED EQUITY SECURITIES

Authorized

On December 18, 1998, the Company obtained supplementary letters patent providing for the cancellation of class A and B preferred securities at \$10 per security that the Company could have issued and the creation of 8,000,000 preferred equity securities at \$25 per security issuable in series, subject to obtaining additional supplementary letters patent.

On February 8, 1999, the Company obtained supplementary letters patent providing for the creation of the first series of series 1 class B preferred securities, with a non-cumulative dividend of 1% for 5 years, to be subsequently revised at a rate that will be based on market prices. These preferred securities are, under certain circumstances, redeemable or convertible into common shares at the issuer's option, under certain conditions including, in some cases, authorization by the Inspector General of Financial Institutions. Moreover, the holder of the preferred securities will be entitled, in certain circumstances, on or after the sixth anniversary of the issue date of the preferred securities, to the payment of a redemption premium to reflect, if applicable, the excess of the market value over the par value.

	As at June 30, 1999 (unaudited) (in millions of dollars)
Issued and outstanding	
3,000,000 class B preferred securities, non-cumulative dividend, series 1	\$75.0

25. PENSION PLANS

According to the updated actuarial valuations, the financial position of the pension plans is as follows:

	As at June 30, 1999 (unaudited)	As at December 31, (in millions of dollars)				
		1998	1997	1996	1995	1994
Present value of accrued pension benefits	\$153.6	\$137.2	\$133.0	\$125.1	\$115.8	\$154.0
Market value of net pension fund assets	\$210.1	\$193.3	\$193.8	\$177.4	\$158.4	\$184.4

26. OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

As indicated in the Matching of assets to liabilities section in Note 2 and in the normal course of managing exposure to fluctuations in interest rates and market values, the Company is an end user of derivative financial instruments that are not reported on the balance sheet.

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

	As at June 30, 1999 (unaudited)	As at December 31, (in millions of dollars)				
		1998	1997	1996	1995	1994
Derivative contracts						
Notional amount						
Equity contracts	\$ 47.6	\$ 25.0	\$	\$	\$	\$
Forward rate agreements	12.9	12.9				
	<u>\$ 60.5</u>	<u>\$ 37.9</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Maximum credit risk						
Equity contracts	\$ 9.9	\$ 5.3	\$	\$	\$	\$
Forward rate agreements	0.9					
	<u>\$ 10.8</u>	<u>\$ 5.3</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

The notional amount represents the amount to which a rate or price is applied to determine the cash flows to be exchanged and does not represent direct credit exposure. Maximum credit risk is the estimated cost of replacing all derivative contracts which have a positive value. The Company's exposure is limited to the risk that a counterparty does not honour the terms of a derivative contract, and the Company applies the same criteria in selecting counterparties as it does for investing in bonds. As at December 31, 1998, all counterparties have a credit rating of "A" or higher.

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

Notes to Consolidated Financial Statements — (continued)

27. YEAR 2000

The Year 2000 represents a significant challenge because many date-sensitive systems have not been designed to correctly identify the year 2000. If not addressed properly, this issue could have an impact on operations and financial reporting, ranging from minor errors to the failures of critical systems. The effects of the Year 2000 Issue may be experienced before, on or after January 1, 2000. Although the Company has had a team assigned to the overall management and support of Year 2000 initiatives since 1995, it is not possible to be certain that all aspects of the Year 2000 Issue, including those related to the efforts of clients, suppliers or other third parties, will be fully resolved.

28. SEGMENTED INFORMATION**

SEGMENTED STATEMENTS OF INCOME

Six months ended June 30, 1999						
	INDIVIDUAL		GROUP		Other Activities*	Total
	Life and Health	Annuities	Life and Health	Annuities		
	(unaudited) (in millions of dollars)					
Revenues						
Premium income	\$261.4	\$277.1	\$156.8	\$347.8	\$ 26.1	\$1,069.2
Net investment income	102.9	96.3	25.4	114.1	4.0	342.7
Other	0.1	24.8	1.1	1.2	4.2	31.4
	<u>364.4</u>	<u>398.2</u>	<u>183.3</u>	<u>463.1</u>	<u>34.3</u>	<u>1,443.3</u>
Operating expenses						
Cost of commitments to policyowners	223.9	44.6	127.4	427.7	20.4	844.0
Net transfer to segregated funds		301.3		16.9		318.2
Commissions, general and other expenses . . .	115.9	33.7	56.2	9.4	11.6	226.8
	<u>339.8</u>	<u>379.6</u>	<u>183.6</u>	<u>454.0</u>	<u>32.0</u>	<u>1,389.0</u>
Net income before income taxes and unusual items	24.6	18.6	(0.3)	9.1	2.3	54.3
Unusual items	0.9	0.2	0.1	0.3	5.8	7.3
Income taxes	(10.0)	(5.5)	(0.2)	(2.2)	(4.0)	(21.9)
Net income for the period	<u>\$ 15.5</u>	<u>\$ 13.3</u>	<u>\$ (0.4)</u>	<u>\$ 7.2</u>	<u>\$ 4.1</u>	<u>\$ 39.7</u>
Six months ended June 30, 1998						
	INDIVIDUAL		GROUP		Other Activities*	Total
	Life and Health	Annuities	Life and Health	Annuities		
	(unaudited) (in millions of dollars)					
Revenues						
Premium income	\$200.3	\$328.8	\$ 97.7	\$340.7	\$ 25.4	\$ 992.9
Net investment income	78.5	81.8	21.3	105.9	3.5	291.0
Other	0.3	17.7	0.5	1.2	3.3	23.0
	<u>279.1</u>	<u>428.3</u>	<u>119.5</u>	<u>447.8</u>	<u>32.2</u>	<u>1,306.9</u>
Operating expenses						
Cost of commitments to policyowners	173.6	(30.5)	92.5	418.2	20.2	674.0
Net transfer to segregated funds		410.5		13.5		424.0
Commissions, general and other expenses . . .	85.3	32.9	23.4	7.9	10.6	160.1
	<u>258.9</u>	<u>412.9</u>	<u>115.9</u>	<u>439.6</u>	<u>30.8</u>	<u>1,258.1</u>
Net income before income taxes	20.2	15.4	3.6	8.2	1.4	48.8
Income taxes	(8.6)	(5.1)	(1.0)	(2.3)	(1.0)	(18.0)
Net income for the period	<u>\$ 11.6</u>	<u>\$ 10.3</u>	<u>\$ 2.6</u>	<u>\$ 5.9</u>	<u>\$ 0.4</u>	<u>\$ 30.8</u>

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

Notes to Consolidated Financial Statements — (continued)

28. SEGMENTED INFORMATION** — (continued)

SEGMENTED STATEMENTS OF INCOME

	Year ended December 31, 1998					
	INDIVIDUAL		GROUP		Other	
	Life and Health	Annuities	Life and Health	Annuities	Activities*	Total
	(in millions of dollars)					
Revenues						
Premium income	\$416.3	\$502.5	\$207.5	\$609.6	\$ 52.3	\$1,788.2
Investment income	171.7	162.8	42.7	217.6	2.2	597.0
Other	0.4	36.9	1.2	2.4	8.2	49.1
	588.4	702.2	251.4	829.6	62.7	2,434.3
Operating expenses						
Cost of commitments to policyowners	362.2	10.9	194.2	760.8	42.8	1,370.9
Net transfer to segregated funds		603.6		33.5		637.1
Commissions, general and other expenses . . .	179.1	56.8	49.8	16.1	23.0	324.8
Income taxes	20.2	9.9	2.4	4.5	(5.2)	31.8
	561.5	681.2	246.4	814.9	60.6	2,364.6
Net income for the year	\$ 26.9	\$ 21.0	\$ 5.0	\$ 14.7	\$ 2.1	\$ 69.7

	Year ended December 31, 1997					
	INDIVIDUAL		GROUP		Other	
	Life and Health	Annuities	Life and Health	Annuities	Activities*	Total
	(in millions of dollars)					
Revenues						
Premium income	\$372.6	\$523.7	\$187.1	\$504.0	\$ 56.5	\$1,643.9
Investment income	144.6	187.5	41.9	207.3	5.5	586.8
Other	0.6	21.6	2.1	2.4	8.4	35.1
	517.8	732.8	231.1	713.7	70.4	2,265.8
Operating expenses						
Cost of commitments to policyowners	320.1	(12.6)	178.0	630.8	49.7	1,166.0
Net transfer to segregated funds		662.1		50.8		712.9
Commissions, general and other expenses . . .	168.9	53.4	43.0	14.0	25.1	304.4
Income taxes	1.8	9.7	3.3	3.6	(1.3)	17.1
	490.8	712.6	224.3	699.2	73.5	2,200.4
Net income for the year	\$ 27.0	\$ 20.2	\$ 6.8	\$ 14.5	\$ (3.1)	\$ 65.4

* Includes other segments and inter-segment eliminations.

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

Notes to Consolidated Financial Statements — (continued)

28. SEGMENTED INFORMATION** — (continued)

SEGMENTED BALANCE SHEETS

	As at June 30, 1999					
	INDIVIDUAL		GROUP		Other activities*	Total
	Life and Health	Annuities	Life and Health	Annuities		
	(unaudited)					
	(in millions of dollars)					
Assets						
Investments	\$2,772.6	\$2,378.3	\$649.0	\$3,198.6	\$ 4.6	\$9,003.1
Other assets	82.7	31.1	50.0	64.1	118.4	346.3
	<u>\$2,855.3</u>	<u>\$2,409.4</u>	<u>\$699.0</u>	<u>\$3,262.7</u>	<u>\$123.0</u>	<u>\$9,349.4</u>
Liabilities						
Actuarial liabilities	\$2,146.7	\$2,098.3	\$584.3	\$2,942.3	\$	\$7,771.6
Other liabilities	182.3	11.2	11.9	47.7	83.7	336.8
Deferred credits	152.9	85.5	17.2	106.2	0.7	362.5
Subordinated debentures	40.4	66.7	35.4	42.5		185.0
Policyowners' equity	333.0	147.7	50.2	124.0	38.6	693.5
	<u>\$2,855.3</u>	<u>\$2,409.4</u>	<u>\$699.0</u>	<u>\$3,262.7</u>	<u>\$123.0</u>	<u>\$9,349.4</u>
	As at December 31, 1998					
	INDIVIDUAL		GROUP		Other activities*	Total
	Life and Health	Annuities	Life and Health	Annuities		
	(in millions of dollars)					
Assets						
Investments	\$2,304.2	\$1,941.3	\$567.4	\$2,990.8	\$24.3	\$7,828.0
Other assets	68.9	28.3	34.6	50.8	74.7	257.3
	<u>\$2,373.1</u>	<u>\$1,969.6</u>	<u>\$602.0</u>	<u>\$3,041.6</u>	<u>\$99.0</u>	<u>\$8,085.3</u>
Liabilities						
Actuarial liabilities	\$1,797.3	\$1,739.1	\$512.6	\$2,728.8	\$	\$6,777.8
Other liabilities	156.1	16.0	8.9	69.4	61.3	311.7
Deferred credits	142.6	41.4	17.6	101.4	(0.4)	302.6
Subordinated debentures		52.0	24.0	34.0		110.0
Policyowners' equity	277.1	121.1	38.9	108.0	38.1	583.2
	<u>\$2,373.1</u>	<u>\$1,969.6</u>	<u>\$602.0</u>	<u>\$3,041.6</u>	<u>\$99.0</u>	<u>\$8,085.3</u>

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY

Notes to Consolidated Financial Statements — (continued)

28. SEGMENTED INFORMATION** — (continued)

	As at December 31, 1997					
	INDIVIDUAL		GROUP		Other	
	Life and Health	Annuities	Life and Health	Annuities	Activities*	Total
	(in millions of dollars)					
Assets						
Investments	\$2,010.4	\$2,161.8	\$548.0	\$2,601.1	\$19.7	\$7,341.0
Other assets	64.9	32.7	28.1	56.6	76.8	259.1
	<u>\$2,075.3</u>	<u>\$2,194.5</u>	<u>\$576.1</u>	<u>\$2,657.7</u>	<u>\$96.5</u>	<u>\$7,600.1</u>
Liabilities						
Actuarial liabilities	\$1,664.7	\$1,999.7	\$506.4	\$2,384.5	\$	\$6,555.3
Other liabilities	65.5	14.2	(4.5)	68.3	65.3	208.8
Deferred credits	91.2	37.3	16.5	74.8	(0.3)	219.5
Subordinated debentures		52.0	24.0	34.0		110.0
Policyowners' equity	253.9	91.3	33.7	96.1	31.5	506.5
	<u>\$2,075.3</u>	<u>\$2,194.5</u>	<u>\$576.1</u>	<u>\$2,657.7</u>	<u>\$96.5</u>	<u>\$7,600.1</u>

* Includes other segments and inter-segment eliminations.

** Data prior to 1997 have not been restated.

29. COMPARATIVE FIGURES

Certain financial data prior to 1999 have been reclassified in order to conform with the presentation of data for the period ended June 30, 1999.

30. CONTINGENCY

On June 1, 1999, Industrial-Alliance announced that it would proceed with the conversion to a share capital company. The conversion will be effective contingent on the following: approval of the conversion proposal by members, adoption by the National Assembly of the *Act respecting conversion*, and issuance of letters patent of conversion pursuant to the *Act respecting conversion*.

**FINANCIAL INFORMATION COMPILATION REPORT
RELATED TO THE CANADIAN OPERATIONS OF
SEABOARD LIFE INSURANCE COMPANY**

*To the members of the Board of Directors of
Industrial-Alliance Life Insurance Company*

At the request of the management of Industrial-Alliance Life Insurance Company, we have reviewed, as to compilation only, the accompanying financial information limited to the data presented in the attached statement of income and balance sheet, prepared by management, of the non-consolidated Canadian operations of Seaboard Life Insurance Company for the years ended December 31, 1997 and 1996 and for the six-month period ended June 30, 1998. This information is limited to the data presented in the attached statement of income and balance sheet of the Canadian operations of Seaboard Life Insurance Company and is taken from documents filed with the regulatory authorities.

This financial information has been prepared for inclusion in the Member Guide of Industrial-Alliance Life Insurance Company as well as the prospectus relating to the investment of the first issue of shares from this company. In our opinion this financial information has been compiled to properly reflect the Canadian operations of Seaboard Life Insurance Company for the years ended December 31, 1998, 1997 and 1996 and for the period ended June 30, 1998.

A handwritten signature in black ink, reading "Samson Bélair" on the top line and "Deloitte & Touche" on the bottom line.

Samson Bélair/Deloitte & Touche, S.E.N.C.
Chartered Accountants

Québec City, July 30, 1999

**FINANCIAL INFORMATION RELATED TO THE CANADIAN
OPERATIONS OF SEABOARD LIFE INSURANCE COMPANY**

STATEMENT OF INCOME

(unaudited)

	Six months ended June 30, 1998	Years ended December 31		
		1998	1997	1996
		(in millions of dollars)		
Revenues				
Insurance and annuity premiums	\$ 86.3	\$173.3	\$178.3	\$182.7
Investment income	49.2	91.7	89.7	98.4
Other	<u>3.8</u>	<u>7.6</u>	<u>6.7</u>	<u>5.9</u>
	139.3	272.6	274.7	287.0
Operating expenses				
Decrease in provisions for future policy benefits	(33.6)	(37.8)	(33.5)	(18.0)
Claims incurred	112.3	188.8	202.5	203.3
Interest on amounts on deposit	0.2	0.4	0.4	0.4
Commissions	6.2	14.0	15.7	17.0
Premiums taxes	2.4	3.4	3.2	3.0
General expenses	34.5	72.8	62.0	56.8
Net financing expenses	<u>1.9</u>	<u>3.8</u>	<u>0.1</u>	<u> </u>
	123.9	245.4	250.4	262.5
Net income before income taxes and dividends to policyowners	15.4	27.2	24.3	24.5
Income taxes	<u>4.8</u>	<u>3.6</u>	<u>4.9</u>	<u>7.1</u>
Net income before dividends to policyowners	10.6	23.6	19.4	17.4
Dividends to policyowners	<u>0.3</u>	<u>0.7</u>	<u>0.5</u>	<u>0.5</u>
Net income for the year	<u><u>\$ 10.3</u></u>	<u><u>\$ 22.9</u></u>	<u><u>\$ 18.9</u></u>	<u><u>\$ 16.9</u></u>

**FINANCIAL INFORMATION RELATED TO THE CANADIAN
OPERATIONS OF SEABOARD LIFE INSURANCE COMPANY**

BALANCE SHEET

(unaudited)

	As at June 30 1998	As at December 31		
		1998	1997	1996
		(in millions of dollars)		
Assets				
Investments				
Bonds	\$ 276.7	\$ 287.7	\$ 299.0	\$ 321.1
Stocks	235.9	245.9	221.9	181.7
Mortgage loans	448.8	440.3	446.3	478.3
Real estate	45.0	45.5	44.8	45.4
Policy loans	7.9	8.4	6.9	6.0
Short-term investments and cash	88.5	101.5	74.5	19.6
Subsidiaries	43.0	5.2	44.8	51.4
	<u>1,145.8</u>	<u>1,134.5</u>	<u>1,138.2</u>	<u>1,103.5</u>
Other assets	25.8	43.2	25.3	25.6
General fund assets	<u>1,171.6</u>	<u>1,177.7</u>	<u>1,163.5</u>	<u>1,129.1</u>
Segregated funds assets	319.7	311.8	297.9	231.6
	<u>\$1,491.3</u>	<u>\$1,489.5</u>	<u>\$1,461.4</u>	<u>\$1,360.7</u>
Liabilities				
Actuarial liabilities				
Provisions for future policy benefits	\$ 825.0	\$ 820.9	\$ 858.6	\$ 892.0
Provisions for dividends to policyowners and experience refunds	0.8	0.8	0.8	0.8
Provisions for policy benefits in process of payment	28.0	34.2	26.0	27.1
Premiums paid in advance and amounts on deposit	6.9	6.4	6.9	7.9
	<u>860.7</u>	<u>862.3</u>	<u>892.3</u>	<u>927.8</u>
Other liabilities				
Accounts payable	30.5	18.1	10.8	23.3
Future income tax liability	7.6	11.8	5.1	7.3
	<u>38.1</u>	<u>29.9</u>	<u>15.9</u>	<u>30.6</u>
Participating policyowners' account	4.9	5.0	4.8	4.3
Deferred credits	53.8	56.6	42.5	32.6
Subordinated debentures	55.0	55.0	55.0	
Equity				
Share capital	45.0	45.4	44.8	30.6
Surplus	114.1	123.5	108.2	103.2
	<u>159.1</u>	<u>168.9</u>	<u>153.0</u>	<u>133.8</u>
General fund liabilities and equity	<u>1,171.6</u>	<u>1,177.7</u>	<u>1,163.5</u>	<u>1,129.1</u>
Segregated funds liabilities	319.7	311.8	297.9	231.6
	<u>\$1,491.3</u>	<u>\$1,489.5</u>	<u>\$1,461.4</u>	<u>\$1,360.7</u>

AUDITORS' REPORT

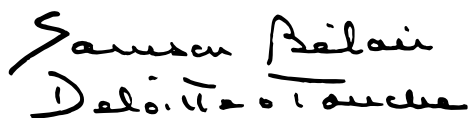
To the members of the Board of Directors of Industrial-Alliance Life Insurance Company

As auditors of Industrial-Alliance Life Insurance Company, we have audited, in accordance with generally accepted auditing standards, its non-consolidated balance sheet as at December 31, 1998, 1997 and 1996 as well as its non-consolidated statements of income, net income and changes in its financial position for the year ended at these dates.

We have expressed in our reports dated February 5, 1999, February 6, 1998 and February 6, 1997 an unqualified opinion on these financial statements.

In our opinion, the information contained in the condensed non-consolidated financial statements, hereto attached, is in accordance with the above-mentioned financial statements it was taken from.

The condensed non-consolidated financial statements should be read in the light of the annual audited non-consolidated financial statements of Industrial-Alliance Life Insurance Company as at December 31, 1998, 1997 and 1996 in order to better understand its non-consolidated financial position, the results of its non-consolidated operations and the changes in its non-consolidated financial position.

A handwritten signature in black ink, reading "Samson Bélair" on the first line and "Deloitte & Touche" on the second line.

Samson Bélair/Deloitte & Touche, S.E.N.C.

Chartered Accountants

Québec City, July 30, 1999

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY
CONDENSED NON-CONSOLIDATED FINANCIAL STATEMENTS

NON-CONSOLIDATED STATEMENT OF INCOME

	Years ended December 31,		
	1998	1997	1996
	(in millions of dollars)		
Revenue			
Insurance and annuity premiums	\$ 559.4	\$ 580.0	\$ 520.1
Investment income	415.6	406.8	397.7
Fees and other	30.4	20.4	12.7
	<u>1,005.4</u>	<u>1,007.2</u>	<u>930.5</u>
Operating expenses			
Policy benefits in process of payment and claims incurred	715.1	741.1	700.6
Interest on amounts on deposit	2.7	2.5	4.3
Experience refunds	(2.3)	4.3	3.7
Commissions	93.2	88.0	64.4
Premium taxes	8.8	8.1	7.6
General expenses	85.4	78.9	73.3
Net financing expenses	6.4	6.4	4.2
	<u>909.3</u>	<u>929.3</u>	<u>858.1</u>
Net income before income taxes, discontinued operations and dividends to policyowners	96.1	77.9	72.4
Income taxes	(22.5)	(8.2)	(8.0)
Discontinued operations and unusual items			(0.2)
	<u>73.6</u>	<u>69.7</u>	<u>64.2</u>
Net income before dividends to policyowners	73.6	69.7	64.2
Dividends to policyowners	3.9	4.3	4.3
	<u>69.7</u>	<u>65.4</u>	<u>59.9</u>
Net income for the year	<u>\$ 69.7</u>	<u>\$ 65.4</u>	<u>\$ 59.9</u>
Non-consolidated surplus			
Balance at beginning	498.4	433.0	355.6
Impact of implementation of the tax liability method	2.4		
Increase resulting from business combination			17.5
Net income for the year	69.7	65.4	59.9
	<u>570.5</u>	<u>498.4</u>	<u>433.0</u>
Balance at end	<u>\$ 570.5</u>	<u>\$ 498.4</u>	<u>\$ 433.0</u>

INDUSTRIAL-ALLIANCE LIFE INSURANCE COMPANY
CONDENSED NON-CONSOLIDATED FINANCIAL STATEMENTS

NON-CONSOLIDATED BALANCE SHEET

	As at December 31,		
	1998	1997	1996
	(in millions of dollars)		
Assets			
Bonds	\$2,507.7	\$2,636.8	\$2,723.1
Stocks and equity indices	132.4	115.6	77.5
Mortgage loans	1,405.7	1,396.1	1,400.4
Real estate	288.4	269.9	245.8
Policy loans	51.7	45.1	44.9
Short-term investments	244.6	50.9	50.4
Subsidiaries	346.7	307.9	309.8
Investment fund	64.5	68.5	60.5
Investment income receivable	47.6	53.5	63.5
Fixed assets	17.7	22.6	21.6
Premiums and amounts receivable	26.1	34.9	30.1
Miscellaneous	6.0	5.7	5.1
General fund assets	<u>\$5,139.1</u>	<u>\$5,007.5</u>	<u>\$5,032.7</u>
Segregated funds assets	<u>\$2,002.6</u>	<u>\$1,581.4</u>	<u>\$ 951.9</u>
Liabilities			
Provisions for future policy benefits	\$3,902.3	\$4,036.4	\$4,203.7
Provisions for dividends to policyowners and experience refunds	11.3	12.9	7.5
Provisions for policy benefits in process of payment	24.7	25.6	23.2
Premiums paid in advance and amounts on deposit	67.4	66.7	72.3
Mortgage debt	33.1	33.6	34.0
Bank overdraft and loan	13.8	10.7	13.1
Future income tax liability	93.4		
Accounts payable and other	78.2	67.1	65.6
	4,224.2	4,253.0	4,419.4
Deferred credits	234.4	146.1	70.3
Subordinated debentures	110.0	110.0	110.0
Policyowners' equity			
Surplus	570.5	498.4	433.0
General fund liabilities and policyowners' equity	<u>\$5,139.1</u>	<u>\$5,007.5</u>	<u>\$5,032.7</u>
Segregated funds liabilities	<u>\$2,002.6</u>	<u>\$1,581.4</u>	<u>\$ 951.9</u>

AUDITORS REPORT

***To the members of the Board of Directors of
Industrial-Alliance Life Insurance Company***

As auditors of The National Life Assurance Company of Canada, we have audited, in accordance with generally accepted auditing standards, its non-consolidated balance sheet as at December 31, 1998, 1997 and 1996 as well as its non-consolidated statements of income, net income and changes in its financial position for the year ended at these dates.

We have expressed in our reports dated February 5, 1999, February 5, 1998 and February 5, 1997 an unqualified opinion on these financial statements.

In our opinion, the information contained in the condensed non-consolidated financial statements, hereto attached, is in accordance with the above-mentioned financial statements it was taken from.

The condensed non-consolidated financial statements should be read in the light of the annual audited non-consolidated financial statements of The National Life Assurance Company of Canada as at December 31, 1998, 1997 and 1996 in order to better understand its non-consolidated financial position, the results of its non-consolidated operations and the changes in its non-consolidated financial position.

The image shows a handwritten signature in cursive script that reads "Samson Bélair". Below the signature, the firm's name "Deloitte & Touche" is written in a similar cursive style.

Samson Bélair/Deloitte & Touche, S.E.N.C.
Chartered Accountants
Québec City, July 30, 1999

THE NATIONAL LIFE ASSURANCE COMPANY OF CANADA
CONDENSED FINANCIAL STATEMENTS

STATEMENT OF INCOME

	Years ended December 31,		
	1998	1997	1996
	(in millions of dollars)		
Revenue			
Insurance and annuity premiums	\$678.8	\$490.2	\$303.7
Investment income	173.4	159.0	157.8
Other	9.3	5.6	3.5
	<u>861.5</u>	<u>654.8</u>	<u>465.0</u>
Operating expenses			
Policy benefits in process of payment and claims incurred	691.6	517.0	324.9
Experience refunds	19.3	5.7	21.6
Interest on amounts on deposit	8.5	6.1	6.2
Commissions	43.2	35.6	31.1
Premium taxes	4.9	4.0	3.9
General expenses	<u>37.4</u>	<u>35.3</u>	<u>35.2</u>
	804.9	603.7	422.9
Net income before income taxes, unusual item and dividends to policyowners ...	56.6	51.1	42.1
Income taxes	(10.6)	(6.8)	(7.1)
Gain on settlement of litigious affairs			5.7
Net income before dividends to policyowners	46.0	44.3	40.7
Dividends to policyowners	<u>19.6</u>	<u>18.6</u>	<u>20.3</u>
Net income for the year	<u>\$ 26.4</u>	<u>\$ 25.7</u>	<u>\$ 20.4</u>
Represented by:			
Net income on participating policies	\$ 6.3	\$ 3.3	\$ 1.0
Net income on non-participating policies	\$ 20.1	\$ 22.4	\$ 19.4
Participating policyowners' account			
Balance at beginning	\$ 34.8	\$ 31.5	\$ 30.5
Impact of implementation of the tax liability method	0.8		
Net income for the year	<u>6.3</u>	<u>3.3</u>	<u>1.0</u>
Balance at end	<u>\$ 41.9</u>	<u>\$ 34.8</u>	<u>\$ 31.5</u>
Retained earnings			
Balance at beginning	\$140.4	\$133.8	\$117.2
Impact of implementation of the tax liability method	2.6		
Net income for the year	20.1	22.4	19.4
Dividends	<u>(6.7)</u>	<u>(15.8)</u>	<u>(2.8)</u>
Balance at end	<u>\$156.4</u>	<u>\$140.4</u>	<u>\$133.8</u>

THE NATIONAL LIFE ASSURANCE COMPANY OF CANADA
CONDENSED FINANCIAL STATEMENTS

BALANCE SHEET

	As at December 31,		
	1998	1997	1996
	(in millions of dollars)		
Assets			
Bonds	\$ 949.7	\$ 778.7	\$ 681.6
Stocks and equity indices	261.6	166.7	116.1
Mortgage loans	1,101.1	995.7	1,004.6
Real estate	29.2	31.5	26.8
Policy loans	33.7	32.6	32.0
Short-term investments and cash	86.3	102.0	71.3
Investment income receivable	24.9	22.2	22.0
Fixed assets	7.8	5.9	5.2
Premiums and amounts receivable	33.9	24.2	27.3
Miscellaneous	12.7	7.8	9.0
General fund assets	<u>\$2,540.9</u>	<u>\$2,167.3</u>	<u>\$1,995.9</u>
Segregated funds assets	<u>\$ 582.8</u>	<u>\$ 466.1</u>	<u>\$ 254.7</u>
Liabilities			
Provisions for future policy benefits	\$2,088.3	\$1,761.3	\$1,609.4
Provisions for dividends to policyowners and experience refunds	29.3	24.2	38.8
Provisions for policy benefits in process of payment	20.9	18.8	18.2
Premiums paid in advances and amounts on deposit	106.9	96.3	80.1
Mortgage debt	14.3	1.4	2.9
Accounts payable	14.3	17.1	17.3
Bank overdraft and loan	3.4	4.2	5.2
Future income tax liability	18.2		
Miscellaneous	1.8	2.1	2.5
	2,283.1	1,925.4	1,774.4
Deferred credits	58.4	65.6	55.1
Equity			
Participating policyowners' account	41.9	34.8	31.5
Share capital	1.1	1.1	1.1
Retained earnings	156.4	140.4	133.8
	199.4	176.3	166.4
General fund liabilities and shareholders' equity	<u>\$2,540.9</u>	<u>\$2,167.3</u>	<u>\$1,995.9</u>
Segregated funds liabilities	<u>\$ 582.8</u>	<u>\$ 466.1</u>	<u>\$ 254.7</u>

AUDITORS REPORT

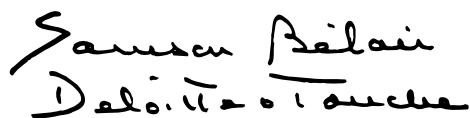
To the members of the Board of Directors of Industrial-Alliance Life Insurance Company

As auditors of The North West Life Assurance Company of Canada and North West Life Assurance Company of America, we have audited, in accordance with generally accepted auditing standards, its non-consolidated balance sheet as at December 31, 1998, 1997 and 1996 as well as its non-consolidated statements of income, net income and changes in its financial position for the year ended at these dates.

We have expressed in our reports dated February 4, 1999, February 4, 1998 and January 31, 1997 an unqualified opinion on these financial statements.

In our opinion, the information contained in the condensed non-consolidated financial statements, hereto attached, is in accordance with the above-mentioned financial statements it was taken from.

The condensed non-consolidated financial statements should be read in the light of the annual audited non-consolidated financial statements of The North West Life Assurance Company of Canada and North West Life Assurance Company of America as at December 31, 1998, 1997 and 1996 in order to better understand its non-consolidated financial position, the results of its non-consolidated operations and the changes in its non-consolidated financial position.

A handwritten signature in black ink, reading "Samson Bélair" on the first line and "Deloitte & Touche" on the second line.

Samson Bélair/Deloitte & Touche, S.E.N.C.

Chartered Accountants

Québec City, July 30, 1999

**THE NORTH WEST LIFE ASSURANCE COMPANY OF CANADA
AND NORTH WEST LIFE ASSURANCE COMPANY OF AMERICA**

CONDENSED COMBINED FINANCIAL STATEMENTS

STATEMENT OF INCOME

	Years ended December 31,		
	1998	1997	1996
	(in millions of dollars)		
Revenue			
Insurance and annuity premiums	\$ 53.1	\$ 48.7	\$ 50.0
Investment income	47.3	48.0	49.0
Other	<u>1.3</u>	<u>0.6</u>	<u>0.1</u>
	101.7	97.3	99.1
Operating expenses			
Policy benefits in process of payment and claims incurred	64.4	62.6	66.4
Experience refunds	0.2	0.1	0.1
Interest on amounts on deposit	0.3	0.3	0.3
Commissions	11.3	11.1	9.8
Premium taxes	0.8	0.8	0.6
General expenses	<u>10.6</u>	<u>11.3</u>	<u>10.0</u>
	87.6	86.2	87.2
Net income before income taxes and dividends to policyowners	14.1	11.1	11.9
Income taxes	<u>0.8</u>	<u>3.6</u>	<u>5.1</u>
Net income before dividends to policyowners	13.3	7.5	6.8
Dividends to policyowners	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>
Net income for the year	<u>\$ 13.1</u>	<u>\$ 7.3</u>	<u>\$ 6.6</u>
Represented by:			
Net income on participating policies	\$ 0.1	\$ 0.3	\$ 0.1
Net income on non-participating policies	\$ 13.0	\$ 7.0	\$ 6.5
Combined participating policyowners' account			
Balance at beginning	\$ (6.9)	\$ (7.2)	\$ (7.3)
Net income for the year	<u>0.1</u>	<u>0.3</u>	<u>0.1</u>
Balance at end	<u>\$ (6.8)</u>	<u>\$ (6.9)</u>	<u>\$ (7.2)</u>
Combined retained earnings			
Balance at beginning	\$ 43.0	\$ 36.0	\$ 29.5
Impact of implementation of the tax liability method	2.5		
Net income for the year	<u>13.0</u>	<u>7.0</u>	<u>6.5</u>
Balance at end	<u>\$ 58.5</u>	<u>\$ 43.0</u>	<u>\$ 36.0</u>

**THE NORTH WEST LIFE ASSURANCE COMPANY OF CANADA
AND NORTH WEST LIFE ASSURANCE COMPANY OF AMERICA**

CONDENSED COMBINED FINANCIAL STATEMENTS

COMBINED BALANCE SHEET

	As at December 31,		
	1998	1997	1996
	(in millions of dollars)		
Assets			
Bonds	\$255.9	\$252.2	\$249.6
Stocks and equity indices	2.2	1.4	1.3
Mortgage loans	326.4	306.1	296.7
Real estate	2.2	7.7	11.0
Policy loans	34.5	32.1	30.9
Short-term investments and cash	12.5	10.0	9.0
Investment income receivable	6.6	6.6	6.6
Fixed assets	2.3	1.2	0.4
Premiums and amounts receivable	2.0	3.0	2.3
Future tax assets	12.2		
Miscellaneous	1.5	1.5	0.1
General fund assets	<u>\$658.3</u>	<u>\$621.8</u>	<u>\$607.9</u>
Segregated funds assets	<u>\$ 51.1</u>	<u>\$ 24.0</u>	<u>\$ 0.8</u>
Liabilities			
Provisions for future policy benefits	\$518.4	\$504.9	\$505.3
Provisions for dividends to policyowners and experience refunds	0.6	0.2	0.3
Provisions for policy benefits in process of payment	2.3	2.8	3.6
Premiums paid in advances and amounts on deposit	5.3	5.2	4.8
Accounts payable	9.6	9.4	11.7
Other	3.5	2.8	3.5
	539.7	525.3	529.2
Deferred credits	9.7	7.8	(0.5)
Subordinated debentures	10.0	10.0	10.0
Equity			
Currency translation account	10.6	6.0	3.8
Participating policyowners' account	(6.8)	(6.9)	(7.2)
Share capital	26.6	26.6	26.6
Contributed surplus	10.0	10.0	10.0
Retained earnings	58.5	43.0	36.0
	98.9	78.7	69.2
General fund liabilities and shareholders' equity	<u>\$658.3</u>	<u>\$621.8</u>	<u>\$607.9</u>
Segregated funds liabilities	<u>\$ 51.1</u>	<u>\$ 24.0</u>	<u>\$ 0.8</u>

Glossary

actuary A specialist in the technical aspects of insurance contracts. The actuary assesses the amount of money necessary for an insurance company to pay for future benefits, including the sums insured and future policyholder dividends.

An Act respecting conversion A private act which must be adopted by the National Assembly in order to authorize and implement the conversion.

An Act respecting insurance (Québec) The provincial act establishing and governing insurance companies. It governs, among other things, the activities of Industrial-Alliance.

annuity See *annuity policy*.

annuity policy A policy that provides for periodic payments to a designated person, either for a fixed period or for the lifetime of the annuitant, including the policies that provide for the accumulation of sums in order to make periodic payments at maturity.

appointed actuary Actuary retained by the insurer to prepare and certify the actuarial component of the Company's reports.

ASO Acronym for “administrative services only”. An agreement whereby an insurance company manages a plan to reimburse various expenses, such as medical, hospital or dental expenses, established and financed most of the time by an employer. Synonym for non-insured benefits plan.

auditor Certified accountant or firm of certified accountants who audits the financial statements in order to ensure that they present fairly, in all material aspects, the financial position of the Company. Samson Bélair/Deloitte & Touche are the auditors of Industrial-Alliance.

benefits Amounts that an insurance company pays to the insured or the beneficiary under an insurance policy.

book value of the Company Before the conversion, the book value of Industrial-Alliance corresponds to the members' equity. After the conversion, this value will correspond to the shareholders' equity plus the policyowners' equity. These amounts are indicated in the pro forma and historic financial statements in Chapter 9.

by-laws Official internal rules that govern a life insurance company.

capital gain or loss Difference between the purchase and sell price of an investment. When you sell an investment for an amount greater than you have paid, you realize a capital gain.

share capital company A company held by shareholders. In *An Act respecting insurance*, the term “joint stock company” is used.

cash amount The cash amount corresponding to the number of shares that an eligible member would have received if no amount in cash had been paid, multiplied by the initial offering price of the common shares of the Company in connection with the initial public offering.

common shares See *shares*.

Company Industrial-Alliance Life Insurance Company and its subsidiaries.

conversion Change made in the legal structure of Industrial-Alliance which, if the conversion takes place, will cease being a mutual insurance company and will become a share capital company. Synonym for “demutualization”.

conversion benefits The common shares issued or the amount in cash paid to the eligible members because of the conversion. You will find more explanations in Chapter 7.

conversion proposal The full legal document on the Company's proposal to become a share capital company. You will find it in Chapter 7 of this document. The conversion proposal includes the conversion by-law.

converted company Industrial-Alliance, once it has become a company owned by shareholders.

demutualization Process of converting an insurance company owned by members into an insurance company owned by shareholders. Synonym for “conversion”.

effective date of conversion Date on which the conversion described in Article 4 of Chapter 7 will take effect. The date is determined in paragraph 4.1 of Chapter 7.

election form The form on which the eligible member who has the right to receive the conversion benefits in the form of shares or in cash indicates his/her preference to Industrial-Alliance.

eligibility date Date set to determine which members will have the right to receive the benefits of the conversion. This date is April 30, 1999.

eligible member The member who has the right to receive shares in the Company or a cash amount if the conversion takes place. Each person who, as of April 30, 1999, is the policyholder of an eligible policy is an eligible member. See Article 6 of Chapter 7.

eligible policy Insurance policy issued by Industrial-Alliance and in force on April 30, 1999. You will find explanations in Article 6 of Chapter 7.

Exchanges The Montreal Exchange and The Toronto Stock Exchange.

foreign member or foreign policyholder The eligible member whose last known address in the books of the Company is outside Canada.

group policy Master contract which covers a specific group of persons and which is classified as such in the Company's books. Often, the persons covered are employees of a company.

independent actuary An actuary who is not employed by the Company and who has not rendered significant services to the Company, the services of whom have been retained to review the actuarial work of an insurance company and provide the reports required by regulations for the conversion into a share capital insurance company. Jean-Louis Gauvin from Ernst & Young is the independent actuary for Industrial-Alliance.

individual policy Insurance policy which is not a group policy. In general, it covers only one person called the insured. From time to time, it also covers the members of the insured's family.

Industrial-Alliance Industrial-Alliance Life Insurance Company.

initial offering price Price agreed on by the Company and its underwriters as the sale price for the common shares of the Company when said shares are offered for the first time to the public through an initial public offering and listed on the Exchanges.

initial public offering or IPO The first offering of shares of a company to the public by way of a prospectus receipted by a securities commission and or another similar regulatory authority.

Inspector General of Financial Institutions The agency appointed by the Government of Québec and charged with monitoring financial institutions, including insurance companies.

insurance policy Unless the context otherwise requires, this expression includes annuity policies.

insurance protection The protection provided by an insurance policy as payable either upon death of the insured or following an accident and illness to the insured. It also includes annuity payments.

Letters patent of conversion Legal document issued by the Government of Québec giving effect to the conversion.

member The holder of an insurance policy in a mutual insurance company. The term "mutualist" is also used.

Member Guide The *Member Guide* of August 10, 1999 which explains the conversion proposal to members.

member interest The voting right of a policyholder in a mutual insurance company and his or her ownership interest.

members' equity The undistributed profits of the Company as a mutual insurance company.

Minister of Finance The Minister of Finance du Québec.

mutual insurance company Insurance company owned by its members.

NIBP Acronym for "non-insured benefits plan". A synonym for ASO contract.

non-participating account An accounting method used by an insurer to take into account the financial results of all the non-participating policies.

non-participating policy Insurance policy which does not entitle the policyholder thereof to receive policyholder dividends

owner The shareholders of a share capital company and the members of a mutual insurance company are often described as the "owners of the Company" or as having "ownership interests". Although these persons are not legally

the owners of the Company, these terms are used because they properly convey the message that these persons (shareholders or members, as applicable) control the Company through their voting rights and that they are entitled to the surplus of the Company when it is distributed.

ownership interest The right which a member of a mutual insurance company may have to receive the surplus of the Company in the event of dissolution, winding-up or liquidation.

participating account An accounting method used by an insurer to take into account the financial results of all participating policies. This term refers to “participating fund” within the meaning of *An Act respecting insurance*.

participating policy Insurance policy which grants the policyholder the right to receive policyholder dividends when the board of directors so decides.

policyholder or policyowner The person who has purchased a policy with an insurer or who has succeeded to the rights of the purchaser. Under *An Act respecting insurance*, this person is also referred to as owner, insured or policyholder.

policyholder dividends Amounts paid to participating policyholders by an insurance company when it has made a larger investment return or there are fewer claims for payment and costs than it had projected at the time it set the premiums on these policies.

premium Payment paid to an insurance company for an insurance policy.

proxy A proxy is a person whom you appoint to act on your behalf according to your instructions. In the case of the proposed conversion of the Company, if you appoint a proxy, you authorize a proxy to vote on your behalf at the special meeting of members, which will be held on November 8, 1999.

proxy form Form used by a member to appoint a proxy to vote on the member’s behalf at the special meeting.

publicly traded company A company held by shareholders, the shares of which are bought and sold on the stock market.

retained earnings Assets of an insurance company for a certain activity in excess of its liabilities and its share capital.

shareholder A person who holds shares in a company and who is, therefore, a partial owner of that company. In the case of Industrial-Alliance, many of its shareholders will initially be the eligible members.

shareholder dividends In a company owned by shareholders, the portion of the profits which said company pays to the shareholders.

shareholders’ equity The total of:

- the amounts transferred to “shareholders’ equity” upon conversion, and
- the proceeds from the common shares issued by the Company.

shares Type of investment that represents an ownership interest in a company. Shares of publicly owned companies are bought and sold on the stock market. Common shares allow you to vote at shareholders’ meetings and may allow you to share in the profits earned by the Company through shareholder dividends.

time Québec City local time.



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**INDUSTRIAL
ALLIANCE**
LIFE INSURANCE COMPANY

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you can trust*
SINCE 1892