Turning Potential into...

...Performance

Annual Report 2001

INDUSTRIAL ALLIANCE
INSURANCE AND FINANCIAL SERVICES

Turning Potential into...

...Performance

Over the years, a corporate culture has developed among Industrial Alliance Group companies. At the very heart of this culture are men and women whose talents have merged in order to perform to the height of their potential.

Who Are We?

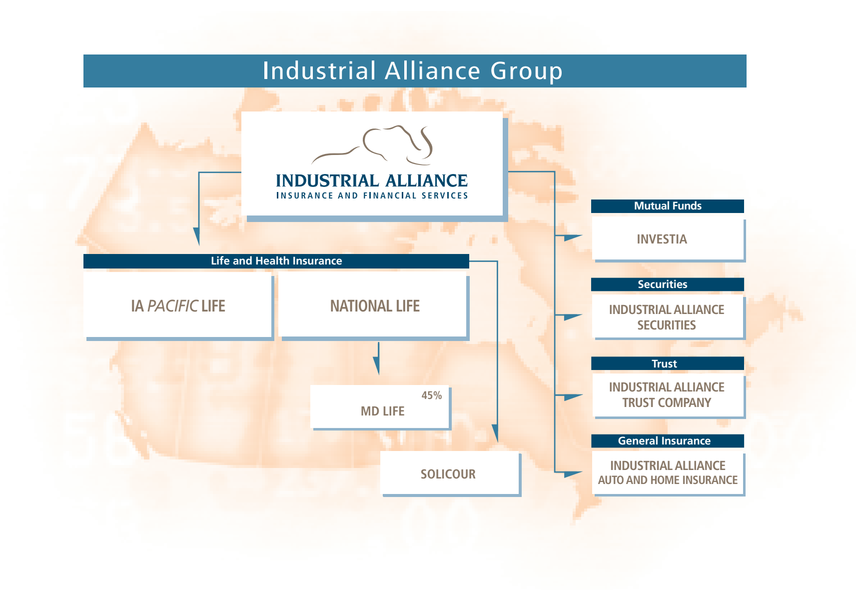
Industrial Alliance Insurance and Financial Services is a life insurance company founded over 100 years ago. The Company is the result of the merger, in 1987, of Industrial, founded in Quebec City in 1905, and Alliance, created in Montreal in 1892. In 1996, Industrial Alliance also merged with The Solidarity, a life insurance company whose origins go back to 1942.

Today, Industrial Alliance has operations in the fields of insurance and financial services. It offers a wide range of life and health insurance products, savings and retirement plans, RRSPs, investment funds, mortgage loans, securities brokerage services, general insurance, as well as other financial services. The Company's products are available on an individual or group basis.

Through its dynamic approach, Industrial Alliance has become a large national financial group—the Industrial Alliance Group—with operations in all regions of Canada. The Group primarily distributes its products through Industrial Alliance, in Quebec City, IA *Pacific* Life, in Vancouver and National Life, in Toronto.

The seventh largest life and health insurance organization in Canada, the Industrial Alliance Group stands out through the size and diversity of its distribution network. The Group insures over 1.5 million Canadians, employs over 2,000 people and manages assets in excess of $15 billion.

Industrial Alliance stock is listed on the Toronto Stock Exchange, under the ticker symbol IAG. It is part of the TSE 300 and TSE 100 indexes. As at December 31, 2001, the Company's market capitalization reached $1.8 billion, making Industrial Alliance one of the 100 largest public companies in Canada.



Highlights

(Consolidated operations)

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

	2001	2000	Variation
Profitability			
Net income attributable to the shareholders			
Including unusual items	103.9	98.1	6%
Excluding unusual items	103.9	92.1	13%
Return on shareholders' equity	14.0%	14.0%[1]	—
Earnings per share (basic and diluted)	$ 2.75	$ 2.43[1]	13%
Book value per share	$ 20.98	$ 18.72	12%
Business Growth			
Total premiums	2,077.0	2,239.0	(7%)
Sales[2]			
Individual Insurance	145.0	134.1	8%
Group Insurance			
• Employee Plans	65.6	39.6	66%
• Creditor Insurance	108.0	100.3	8%
Individual Annuities	529.1	613.8	(14%)
Group Pensions	344.1	257.5	34%
Fees and other revenues	93.6	88.1	6%
Financial Position			
Capital base[2]	1,103.2	1,014.2	9%
Assets			
General funds	8,886.3	8,571.8	4%
Segregated funds	4,061.6	5,439.5	(25%)
Other funds under management/administration	2,192.7	90.6	—
Total	15,140.6	14,101.9	7%
Minimum continuing capital and surplus requirements (MCCSR): ratio	187%	187%	—
Quality of Investments			
Impaired assets as a % of investments	0.28%	0.26%	—
Mortgage loans: delinquency rate	0.48%	0.23%	—
Bonds: rated BB and lower as a % of the portfolio	0.03%	0.23%	—
Real estate: occupancy rate	96.27%	96.67%	—
Common stocks and equity indices: market value as a % of book value	98.22%	102.08%	—
Human Resources			
(number of people, life insurance companies)			
Number of employees	2,035	1,948	+87
Number of Career representatives	1,270	1,218	+52

[1] Excluding unusual items.
[2] Refer to the *Five-Year History - Consolidated Financial Data* for details.

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Message from the Chairman

of the Board and from the President and Chief Executive Officer

Raymond Garneau
Chairman of the Board

Yvon Charest
President and Chief Executive Officer

Turning Potential into...

...Performance

- Record net income of $103.9 million, for a 14.0% rate of return
- Increase in sales in most lines of business
- Acquisition of companies operating in the mutual funds, securities brokerage and creditor insurance among automobile dealers sectors
- Signature of administration, distribution and partnership agreements with solid financial institutions
- Regrouping of operations of the Group's three life insurance companies for three lines of business

Even though 2001 was marked by the tragic events of September 11, as well as by the appearance of the first signs of an economic slowdown and a substantial stock market downturn, we are pleased to announce that we ended the last financial year with record earnings and a sharp increase in sales.

Once again, these results show Industrial Alliance's capacity to realize a high and stable return, even during the most difficult times. We are not trying to say that the Company is impervious to the ups and downs of the economy, but we can certainly state that the long-term vision with which we manage the amounts that are entrusted to us, a vision that is exclusive to life insurance companies, allows us to consistently and constantly grow and prosper, a guarantee of security for our insureds and shareholders.

Profitability

We ended 2001 with shareholder net income of $103.9 million (Figure 1). This income is 13% higher than the previous year's earnings of $92.1 million. The year 2000 income excludes a non-recurring unusual gain of $6.0 million resulting from the reduction of income tax rates announced by the federal and Ontario governments.

Earnings per share for 2001 were $2.75, $0.32 higher than in 2000, also excluding the unusual gain (Figure 2). Since Industrial Alliance's conversion into a stock company two years ago, the Company has invariably announced an increase in its earnings per share when compared to the corresponding quarter of the previous year.

The return on common shareholders equity was 14.0% for the year, the same rate as in 2000, excluding the unusual gain (Figure 3). This rate is right in the middle of the Company's 13% to 15% target range.

Last August, the Company announced that it was increasing its target return by one percentage point. When we made the announcement, we stated that we had enough confidence in our strategy to increase our target, thus providing the market with new indications as to the Company's potential return for the next few years. The solidity and consistency of our income since our conversion into a stock company, as well as the profitability of our sales, which is reflected by the strong embedded value of new sales, allows us to look to the future with optimism.

Business Growth

With respect to business development, we are targeting growth of sales five percentage points higher than that of the industry in all lines of business.

In spite of the general sluggishness of the economy in 2001, sales continued to grow, except in the Individual Annuities sector which, like the industry, was affected by the substantial downturn in the stock markets.

By line of business, the highlight of 2001 was the 66% increase in Group Insurance employee plan sales, a much higher growth rate than the industry.

In Group Pensions, sales grew by 34%, thanks to a remarkable year in the insured annuities sector. Industrial Alliance is among the industry leaders in this market segment.

Finally, in the strategic Individual Insurance sector, the Company moved up from the number two position to rank number one in terms of sales in 2001, making it the leader in Canada for universal policies. The Individual Insurance sector contributed for almost one third of the Company's premium income and for just over half of its earnings.

Today, the Industrial Alliance Group has very enviable market positions in Canada in the markets in which it operates. With respect to sales, it is:

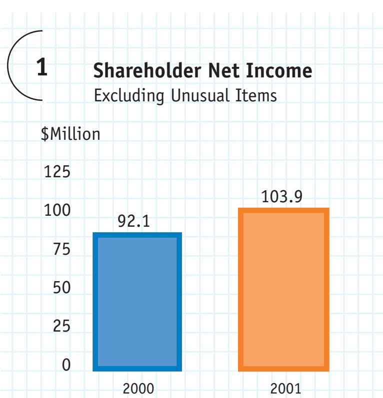
- first in individual insurance
- fourth in individual annuities (net segregated fund sales)
- first in creditor insurance among automobile dealers
- fifth in group insurance for the small and medium sized business market
- among the top five in insured group annuities.

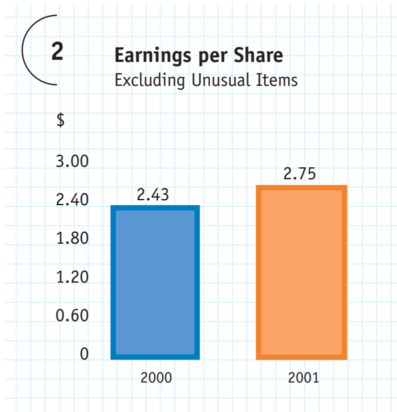
Main Achievements

Not only was the year profitable from a financial standpoint, it was also very productive in terms of achievements.

In terms of acquisitions, Industrial Alliance acquired, either directly or through its subsidiaries, the assets of Groupe Financier Concorde, a mutual funds broker-dealer; Aegis Insurance Corporation, a Saskatchewan life insurance company operating in the creditor insurance market among automobile dealers; and ISL-Lafferty Securities and certain assets of BNP (Canada) Securities, two full-service stock brokerage firms. These last two acquisitions were made at the beginning of 2002.

With these acquisitions, Industrial Alliance now owns subsidiaries in several key financial sectors: life and health insurance, mutual and segregated funds,

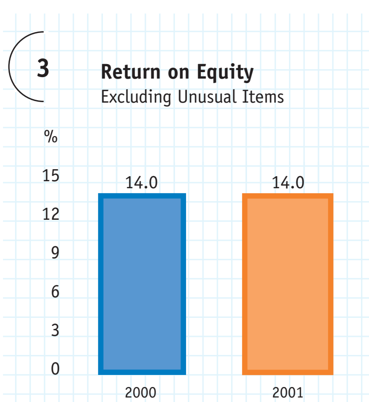




trust, securities brokerage and general insurance. The strategy behind these acquisitions is quite simple: provide our representatives with a full line of financial products so that they can efficiently manage every aspect of their clients' wealth.

In terms of administration, distribution or partnership agreements, Industrial Alliance concluded, either directly or through its subsidiaries, four agreements in 2001 or at the beginning of 2002:

- An agreement with MD Management to create MD Life, a life insurance company. This company is responsible for the distribution and administration of the individual insurance and group annuity products for the members of the Canadian Medical Association.
- An agreement with National Bank Trust, a subsidiary of the National Bank of Canada. Under this agreement, Industrial Alliance will develop and administer National Bank Trust group retirement plans.



Key Strategic Initiatives

Acquisitions

- Groupe Financier Concorde
- Aegis Insurance Corporation
- ISL-Lafferty Securities
- BNP (Canada) Securities

Administration, distribution and partnership agreements

- MD Life
- National Bank Trust
- BMO Life Insurance
- La Capitale Services Conseils

Regrouping of operations in the Industrial Alliance Group companies

- Group Insurance
- Group Pensions
- Investments

- An agreement with BMO Life, a subsidiary of the Bank of Montreal. Under this agreement, National Life, a subsidiary of Industrial Alliance, will provide administrative and information processing services to BMO Life.
- An agreement with La Capitale Services Conseils, the distribution network for a Quebec life insurance company. Under this agreement, La Capitale agents will distribute Industrial Alliance's segregated funds and registered education savings plans. La Capitale's agents began distributing Industrial Alliance's universal life policy about a year ago.

Once again, the strategy behind these agreements is very simple: take advantage of our expertise in product development, administration and client service to accelerate our growth. Developing agreements with solid financial institutions allows us to further expand our distribution capacity, one of the Industrial Alliance Group's factors of success. We believe there is a strong future in Canada for this type of agreement.

Finally, with respect to the organizational structure, we have combined the operations of the Group's three life insurance companies in three sectors: Group Insurance, Group Pensions and Investments. These combinations will place us in a stronger position to face the competition, in all regions of the country, thanks to an integrated strategy and renewed energy.

Activities of the Board

The Board and its various committees held 26 meetings in 2001. In addition to the usual topics such as studying the budget and financial statements or following up on measures related to standards of sound business and financial practices, the Board and its various committees participated in discussions concerning the rationalization of the industry, particularly as concerns the Company's acquisition projects in the life insurance sector or in complementary financial sectors.

In 2001, the Board took a special interest in human resources management. This is how it came to accept the implementation of a long-term incentive program for senior managers and a share purchase plan for the employees. Succession planning at all levels and the assignment of "group" responsibilities to a number of key managers in the organization shows the Board's willingness to support management in its search for an ever-increasing synergy among the Group companies.

Two Board members left the Company in 2001, Donald J. Savoie and Andréa Latulippe. Mr. Savoie had been a director since 1997. Mr. Savoie obtained an important position as a visiting professor at a large American university. Mr. Latulippe had been a Board member since 1996. The former President of The Solidarity, he had been one of the main architects of the merger between Industrial Alliance and The Solidarity. On behalf of the members of the Board, we would like to thank these two directors for their precious contribution to the smooth operation of the Company.

Two new directors have joined the Board to fill these two vacancies: Francis McGuire and Jim Pantelidis. Mr. McGuire is President and CEO of Major Drilling Group International Inc. A resident of the Maritimes, Mr. McGuire has in-depth knowledge of this region and good experience in the business world. Mr. Pantelidis is President of J.P. & Associates. He has spent a great deal of his career in the petroleum industry, particularly at Petro-Canada, where he held a number of senior executive positions and, until recently, was Chairman of the Board and CEO of Bata Ltd.

Growth of Sales

	Growth in 2001		
	Industrial Alliance	Industry[1]	Rank
Individual Insurance	8%	2.5%	1st
Group Insurance (employer/employees market[2])			
Total market	66%	19%	9th
Target market (50 to 1,000 lives)	26%	11%	5th
Individual Annuities			
Sales	(14%)	(3%)	N/A
Net sales (segregated funds)	(25%)	(63%)	4th
Creditor Insurance[3]	8%	N/A	1st
Group Pensions[4]	34%	N/A	N/A

1 LIMRA data, except for Individual Annuities, where the data come from the Investment Funds Institute of Canada and Invester Economics.
2 Excluding special risks (SMG).
3 Creditor insurance among automobile dealers.
4 Excluding the amounts paid under the agreement with the Canadian Medical Association.

Financial Objectives

- Profitability: return on equity in the 13% to 15% target range
- Growth: growth of sales five percentage points higher than the industry

Conclusion

As you can see, 2001 was a satisfying year from a financial standpoint and productive in terms of achievements. We have succeeded in standing out in this market through a combination of several qualities: the strength and reputation of our agents, grouped together in multiple distribution networks; strong regional brand names; an entrepreneurial spirit in all of the Group companies; a well-defined and well-executed growth strategy in each line of business; low production costs; and the cohesion of our experienced and dedicated management team.

A performance-oriented corporate culture has been created over the years within the Industrial Alliance Group companies. It is, however, a humane culture, where the individual has always been at the heart of the process of value creation.

Turning potential into performance makes anything possible…

Thank you.

Raymond Garneau Yvon Charest

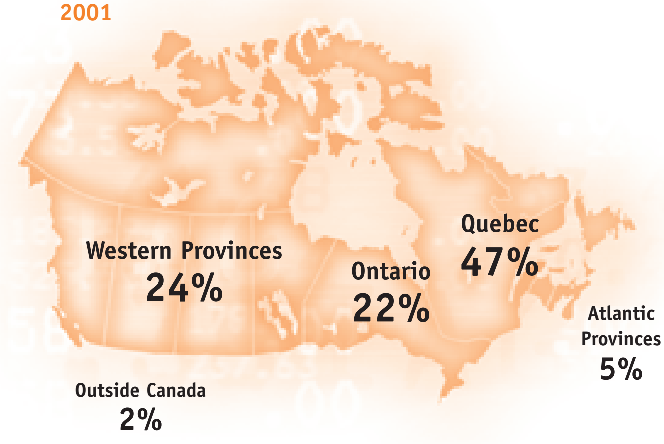
Why Invest in
Industrial Alliance?

Founded over 100 years ago, Industrial Alliance is an industry leader in insurance and financial services. The Company has grown consistently over the decades, fuelled by a variety of well-balanced profit sources. Renowned for its financial solidity, Industrial Alliance has become, through its dynamic approach, a large financial group with operations across Canada.

A Canada-Wide Company

Distribution of Premiums by Region

2001



Turning Potential into...
...Performance

- 1st in individual insurance sales
- 4th in net segregated funds sales
- 5th in group insurance sales (employee plans) in the small- and medium-sized business market
- 1st in creditor insurance sales among automobile dealers
- Among the top 5 in the insured group annuities market

Key Success Factors

- Competitive and innovative products
- Ability to build and manage several distribution networks
- Leading edge sales and management tools
- Excellent client service
- Qualified and dedicated personnel

Competitive Advantages

- Multi-channel distribution strategy
- Strong regional brands
- Strong entrepreneurial spirit that drives all companies in the Group
- Focused growth strategy in all business segments
- Low cost producer
- Experienced and dedicated management team

Strengths

- Consistent and high ROE
- Consistently increasing EPS
- Business growth higher than the industry in all lines of business
- High-quality investment portfolio
- High embedded value
- Well-diversified operations throughout Canada
- Well-balanced revenue and profitability sources

Strategy

- Continuously build on multi-channel distribution strategy
- Accelerate growth in wealth management
- Leverage National Life brand and expertise
- Constantly enhance and adapt product line
- Improve cost structure and operating efficiencies
- Pursue acquisitions aggressively

Turning Potential into... ...Performance

"Coaching hockey is a little like being an administrator. In both cases, you have to be able to draw on everyone's individual talents so that the whole team can excel."

Denis Ricard, Assistant Vice-President, Marketing, Individual Insurance and Annuities, Industrial Alliance

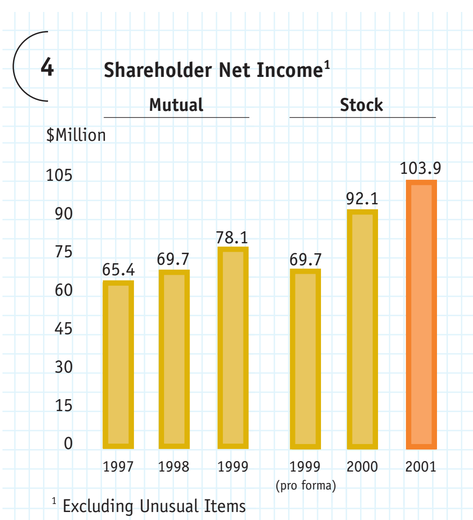
Profitability

and Capitalization

PROFITABILITY

Industrial Alliance set a new profit record in 2001, its 8th consecutive year of growth in annual profit. Shareholder net income reached $103.9 million, which is $11.8 million or 13% higher than the previous year (excluding the $6.0 million unusual gain in 2000 resulting from corporate income tax rate reductions[1]) (Figure 4).

Every business sector of the Company achieved growth in operating profits except Individual Annuities, which was hit hard by the downturn in stock markets and the weak economic environment. Strict control of operating expenses and increased synergies within the Group also contributed to the growth in net income.



Sources of Net Income

In general, the economic and business climate in 2001 was much more difficult than in previous years. In fact, the economy has slowed down considerably, and the spectre of a recession was evoked a number of times over the last few months. There was a significant downturn in the stock markets, which ended the year much lower than the previous year.

The tragic events of September 11 further impacted an already weakening economic environment, although we are now starting to see some positive signs. Markets did turn around in the 4th quarter after a significant decline between September 11 and 21, but still finished the year with double digit declines in most equity indices.

These events have had a negative impact on the results of the savings product business sectors, particularly Individual Annuities. However, excellent profitability results in the insurance business sectors (both individual insurance and group insurance) and strict control over operating expenses enabled the Company to achieve record profits in 2001.

Profitability

- 8th consecutive year of record earnings
- Shareholder net income of $103.9 million, up 13%
- Earnings per share of $2.75, up $0.32
- ROE stable at 14.0%

Capitalization

- Capitalization up by 9%, to $1,103 million
- Solvency ratio stable at 187%
- Debt to capital ratio down to 16.8% (18.2% in 2000)
- Credit ratings high and stable

Return on Equity

The return on equity since demutualization has consistently been above 13%, and reached 14.0% at the end of 2001. This return on shareholders' equity is right in the middle of the Company's increased target range of 13%-15% (the target range was increased from 12%-14% to 13%-15% in August 2001) (Figure 5).

Earnings per Share

Earnings per share for 2001 were $2.75, which is $0.32 or 13% higher than the

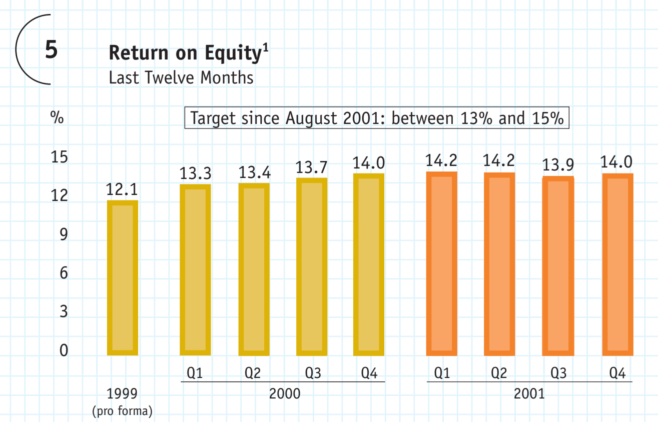
[1] Note that all comparisons with the year 2000 exclude unusual net income of $6.0 million, posted in the fourth quarter of 2000, resulting from the reduction in corporate tax rates announced by the federal and Ontario governments.

previous year (Figure 6). Since demutualization, the Company has achieved consistent growth in earnings per share each quarter compared to the same quarter the previous year.

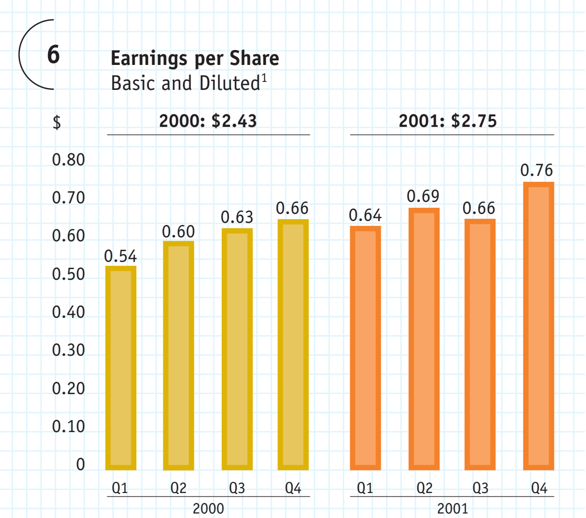
Profitability by Line of Business

The Industrial Alliance Group of Companies operates in four lines of business.

Individual Insurance - The Individual Insurance line of business recorded another strong year with net income of $55.7 million for the year, which is $9.5 million or 21% higher than the previous year. Profitability remains strong in this core business segment and individual insurance accounted for $1.48 of the earnings per share, or just over half the profits for the Company (Figure 7).



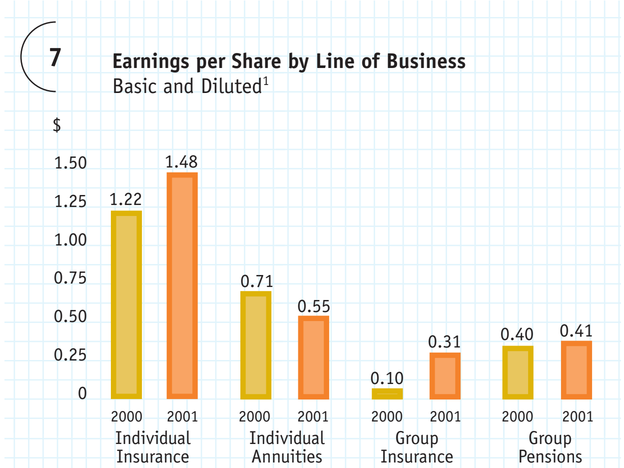
[1] Excluding Unusual Items



[1] Excluding Unusual Items

The major contributors continue to be lower strain on new business (higher sales but more YRT sales with lower strain), growth in our block of business and favourable mortality experience.

In 2001, the Company changed its valuation method of actuarial liabilities from PPM (Policy Premium Method) to CALM (Canadian Asset Liability Method). This change had an insignificant impact on results.



[1] Excluding Unusual Items

Individual Annuities - Individual Annuities ended the year with a much improved final quarter, consistent with recovery in the equity markets. However, the shortfall in the 1st and 3rd quarters resulted in net income for the year falling $5.6 million or 21% behind last year.

The combined effect of lower fees and increased reserves on segregated fund guarantees, both resulting from lower equity markets and a weaker economic environment, resulted in reduced profitability in 2001. In spite of a challenging business environment, the business sector still contributed 20% or $0.55 of the earnings per share for the year.

Group Insurance - Group Insurance, which had reported a loss of $2.9 million in 1999 (pro forma), continued to sustain a remarkable turnaround in profitability. Net income for the year at $11.9 million is almost triple the previous year's results, and represents $0.31 or 11% of the earnings per share for 2001.

The necessary rate increases on contract renewals in the past couple of years have now almost worked their way through to the bottom line. Also, a new unified Group operating structure and a common technology platform have contributed effectively to business growth and profitability.

Overall, experience for the year was fairly positive in disability insurance as well as group life business. Health and dental experience was in line with expectations, despite the continuing price increases that reflect the current trends in medical expenses.

Creditor insurance results for the year as a whole were in line with expectations, despite some volatility throughout the year.

Group Pensions - Group Pensions ended the year with net income of $15.3 million, marginally better than the previous year. This translates into $0.41 or 15% of the Company's earnings per share for 2001.

Strong growth of regular business during the past couple of years, as well as the recently signed major contract with National Bank Trust, provides an opportunity for future growth.

Dividends

Industrial Alliance paid out quarterly dividends of $0.15 per common share in each quarter of 2001. These dividends represent a total amount of $22.5 million, for a payout ratio of 22%. This is in compliance with the Company's policy to pay out a dividend between 20% and 30% of the net income.

Summary

The year 2001 started on a positive note, with strong financial and business growth results in the first half of the year despite a somewhat subdued economic and business environment. However, the third quarter proved to be a challenging one and the events of September 11 left everyone a little nervous about how businesses would fare in the final quarter of the year. The Company had a strong final quarter overall, and met the 2001 profitability objectives and the business growth targets in all lines of business except Individual Annuities, which was hit hardest by the prevailing economic and business environment.

Embedded Value

Since Industrial Alliance and four other major insurers converted into stock companies, investors and financial analysts have been seeking to measure the value of insurance companies and get a better understanding of the various factors that can affect their performance.

In this respect, one of the best tools that companies can provide to investors and analysts to appreciate their value and financial dynamics is embedded value. Embedded value allows for an estimate to be made of a life insurance company's economic worth, excluding the value related to its distribution capacity and future sales.

Industrial Alliance, a Leader in Terms of Disclosure

In December 2000, Industrial Alliance became the first North American company to publish its embedded value. Industrial Alliance innovated once again in 2001 by becoming the first company to publish the components explaining the growth of its embedded value over the course of one year.

By publishing its embedded value, Industrial Alliance is aiming to keep investors informed and offer them an additional tool so that they can obtain an even more accurate appreciation of the Company's worth and obtain a better understanding of the particulars of the world of life insurance.

Turning Potential Into Performance

Industrial Alliance's embedded value reached $1.4 billion as at December 31, 2000, the date of its most recent evaluation. This value is the equivalent of 2.00x the Company's book value. As the table below shows, this is the highest ratio among the insurance companies that have disclosed their embedded value so far. This value represents $37.08 per share, which provides an overview of the economic worth of each outstanding share, without taking into account the Company's distribution capacity and its future sales.

Another interesting figure for investors and financial analysts, however, is the embedded value of new sales. This value measures the proportion in which new contracts sold during the year contribute to the increase in the embedded value. Hence, as the table below shows, Industrial Alliance was ranked first in Canada in 2000 with respect to the value of new sales per share. This figure is important for investors, since it allows them to judge the profitability of the products and services offered by the Company, as well as the productivity of its distribution networks.

Note that in Europe, the shares of insurance companies generally trade at their embedded value plus a multiple of the value attributed to new sales.

Embedded value is not a static figure, however. It is influenced by several factors, including the strategic decisions made by companies, the profitability of their new sales, the experience of their various business blocks, as well as numerous other economic factors over which companies have little or no control (economic environment, consumer behaviour, etc.).

An Evaluation Tool that is Gaining in Acceptance

Already widely used in England for over a decade, and growing in Europe, the concept of embedded value is constantly increasing in popularity within the financial community in Canada. Combining embedded value with previously used measures, such as the price/earnings ratio or the market/book value ratio, allows investors to appreciate the relative value of the stocks of public companies.

Compared Embedded Value of Certain Life Insurance Companies

	Canada Life	Clarica	Industrial Alliance	Manulife	Sun Life
Embedded Value as at December 31, 2000					
Embedded Value ($Million)	5,000	4,102	1,393	11,300	11,025
Embedded Value per Share ($)	31.17	30.55	37.08	23.44	26.14
Embedded Value/Book Value Ratio	1.61	1.51	2.00	1.58	1.65
Embedded Value of New Sales in 2000					
Value of New Sales per Share ($)	0.81	0.80	1.73	1.24	1.33

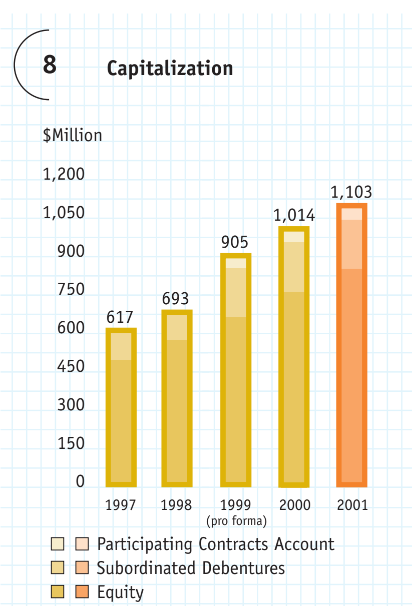
CAPITALIZATION

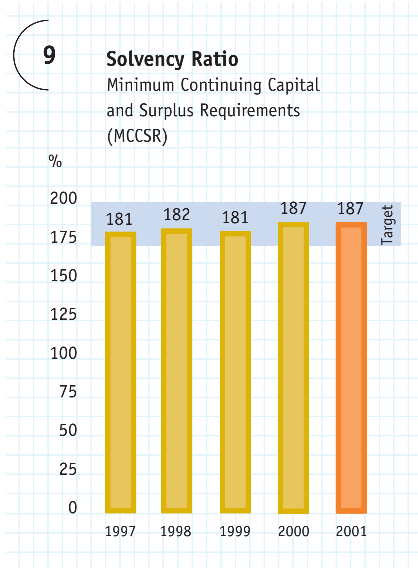
The Company's capitalization is a key element not only for the financial security of the contract holders, shareholders and creditors, but also to ensure its growth and obtain favourable credit ratings.

The Company's capitalization, which is made up of equity, the participating policies account and subordinated debentures, was up 9% in 2001, reaching $1,103 million at year-end (Figure 8). This growth is primarily the result of the net income and, to a lesser extent, the issue of new common shares (for the equivalent of $2.8 million). These shares were issued as part of the Aegis and Sascar acquisition in the third quarter. The number of outstanding common shares was 37.65 million as at December 31, 2001, which represents an increase of 67,445 (0.2%) over the end of 2000.

Solvency

After the year's stock market decline, primarily in the third quarter, the solvency ratio determined in accordance with regulatory standards dipped to 178% as at September 30, 2001. It regained its strength in the fourth quarter, however, a result of the recovery of the stock markets, and by year-end was back up to last year's level of 187% (Figure 9). This ratio far exceeds the regulatory requirements, and is well in line with the Company's objective to maintain a solvency ratio of between 175% and 200%. Note that the solvency ratio now fully reflects the new capital requirements set out by the regulatory authorities with respect to the guarantees granted on segregated funds.



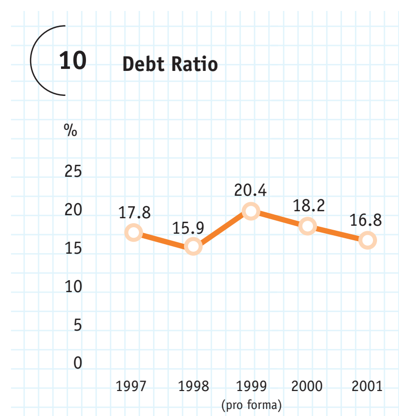


Debt to Capital Ratio

The net earned income for the period and the absence of any new debt contributed to the reduction of the Company's debt to capital ratio. This ratio, which is calculated by dividing the subordinated debentures by the total capitalization, amounted to 16.8% as at December 31, 2001, down from 18.2% at the end of 2000 (Figure 10).

Credit Ratings

All the credit agencies that rate Industrial Alliance and its subsidiaries renewed their ratings in 2001. Note, however, that in the middle of the year, A.M. Best began rating the subordinated debentures and preferred shares of the parent company. As the table below shows, the credit ratings assigned to Industrial Alliance confirm the Company's financial solidity and its ability to meet its commitments to policyholders.



INDUSTRIAL ALLIANCE CREDIT RATINGS

Rating Agency	Type of Evaluation	Rating	Trend
A.M. Best	Financial Solidity	A (Excellent)	—
	Subordinated Debentures	a-	—
	Preferred Shares	bbb+	—
Standard & Poor's	Counterparty Risks	A+/Stable/—	Stable
	Financial Solidity	A+	Stable
	Subordinated Debentures	A-	Stable
	Preferred Shares		
	○ Canadian Scale	P-2 (High)	Stable
	○ Global Scale	BBB+	Stable
DBRS	Financial Solidity	IC-2	Stable
	Subordinated Debentures	A	Stable
	Preferred Shares	Pfd-2 (High)n	Stable

Turning Potential into... ...Performance

Tammy Hughes, Director, Administration, Life Insurance, IA *Pacific* Life

"Curling requires enormous precision and high levels of strategy. As at work, the right decision at the right time makes all the difference and allows the team to win."

- 1st in Canada with respect to individual insurance sales, with 13.9% of the market
- 4th in Canada with respect to net segregated fund sales, with 9.0% of the market

Individual
Insurance and Annuities

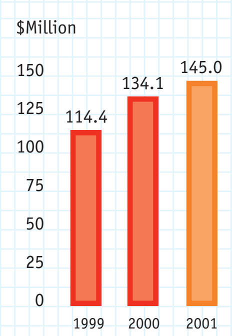
It was another good year for the Individual Insurance and Annuities sector. In fact, the Company moved up from the number two position last year to rank number one in 2001 for individual insurance sales in Canada. This is a truly remarkable achievement. Our position as an industry leader rests on several factors, including our ongoing desire to offer competitive and innovative products that meet the ever-changing needs of our clients. Our success in marketing these products is also attributable to a combination of factors, including the quality and expertise of our resources, and the commitment of our representatives.

INDIVIDUAL INSURANCE

Business Growth

Individual Insurance sales reached a record $145.0 million in 2001, up by 8% over 2000 (Figure 11). This achievement far surpasses industry growth figures, which amounted to 2.5%[1] for the same period last year. Sales were particularly strong at the beginning of the year, enabling the Group to rise from the number two position in Canada to number one. In fact, the Group's sales accounted for 13.9% of all Canadian industry sales. For the past five years, sales growth has averaged 21.3% per year, triple the industry rate.

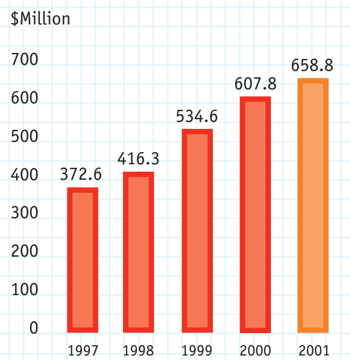
11 **Sales**
Individual Insurance[1]



[1] According to the new calculation method.

[1] Source: LIMRA International, Canadian Individual Life Insurance Sales Survey (first-year annualized premiums), December 31, 2001.

12 **Premiums**
Individual Insurance



This growth in sales is even more impressive given the economic slowdown that occurred in 2001, particularly following the tragic events of September 11. This slowdown weakened the confidence of investors who reduced their "excess premiums" (the optional premium that goes toward the savings portion of their policy).

It should also be noted that as of the fourth quarter, sales to physicians under the agreement with MD Management no longer appear under the Group's results. These sales are now carried by MD Life, the new life insurance company created jointly with MD Management. National Life, a subsidiary of Industrial Alliance, holds a 45% interest in this new company.

Premium income amounted to $658.8 million in 2001, up by 8% over the previous year (Figure 12). Premium income includes premiums paid by insureds for new contracts, as well as premiums paid for contracts sold in prior years (renewal premiums).

Primary Achievements

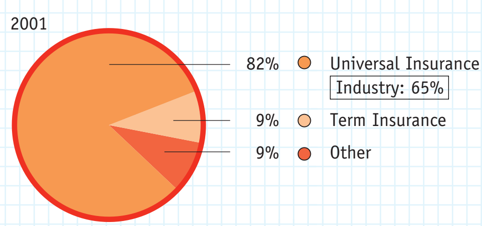
One of the main achievements of the Individual Insurance sector was the signing of a third party administration agreement at the beginning of 2002 between National Life, a subsidiary of Industrial Alliance, and BMO Life Insurance Company, a subsidiary of Bank of Montreal. Under this agreement, National Life will provide administrative and data processing services to BMO Life.

This agreement acknowledges National Life's administration and customer service expertise, and is part of a growth strategy to sign administration and distribution agreements with other sound financial institutions.

On the product development front, numerous improvements were made throughout the year to the range of products offered by the Group's companies.

All Group companies improved the features of their universal policies. Universal life policies are definitely the top-selling product for the Group, accounting for 82% of its total sales compared to the industry rate of 65% (Figure 13). Universal life policies are part of a new generation of policies that combine insurance coverage with a savings account under one contract. In addition to providing life insurance coverage, this product also acts as an effective management tool for tax, estate and retirement planning.

13 **Sales by Product**
Individual Insurance



In other regards, we reviewed the pricing of our term insurance product in an effort to make it more competitive. The changes to this product were successful and had an immediate impact on sales.

We also reviewed our mortgage insurance policy. We updated its image to make it more attractive and made a few improvements, primarily in terms of its pricing. A variety of benefits were also added, including critical illness coverage.

Our critical illness insurance policy, which was introduced one year ago, made a significant breakthrough in the market last year. Sales of this product alone accounted for 8.3% of industry sales in 2001. The excellent response to this product suggests it will have a very promising future.

Strategy

We believe that to succeed in the individual insurance market, a company needs to offer a wide range of innovative, competitive products, provide a competitive compensation structure,

Individual Insurance

Key Success Factors

- Innovative, competitive products
- Competitive compensation
- Ability to build and manage several distribution networks
- State-of-the-art sales and management tools
- Outstanding customer service
- Low unit costs

Competitive Advantages

- Size and number of distribution networks
- Strong regional brands
- Entrepreneurial spirit that drives all companies in the Group
- Quick reaction time to the market
- Reputation for excellence and financial soundness

Strategy

- Attract distributors:
  - Grow the Career Network by 3% each year
  - Accelerate the growth of the insurance and securities brokers networks
  - Forge alliances with other distributors
- Continue to improve the product line and manage the product mix to ensure the best possible profitability

build and manage a diversified distribution network, give representatives access to state-of-the-art sales and management tools, provide excellent customer service, and take advantage of low unit costs.

We believe that we have all of these qualities. The primary advantages of the Group—advantages that make us stand out from the competition—include the size and diversity of our distribution networks, our strong regional brand names, the entrepreneurial spirit that drives each of the companies in the Group, the speed at which we react to bring new products to market, and the Group's reputation for excellence and financial soundness.

The various Individual Insurance initiatives that will be launched in 2002 have one important goal in mind—to maintain our leadership on the sales front while continuing to strengthen our position in the market. To achieve this goal, we rely on our ability to attract new representatives to the various distribution networks, and the ongoing improvement of our product line.

Description of the Individual Insurance and Annuities Sector

The Individual Insurance and Annuities sector offers a full line of insurance, savings and retirement products. These products are distributed throughout Canada by the Industrial Alliance Group's three life insurance companies under their own brand names, but in different regions. Industrial Alliance and IA *Pacific* Life distribute the same line of products, which are generally designed for middle-income families (primarily in central and eastern Canada for the parent company, and in western Canada for IA *Pacific* Life). National Life, located in Toronto, sells its own line of products Canada-wide, primarily to high-income clients.

Products and Services

Insurance Products

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

Savings Products

- Registered Retirement Savings Plans (RRSP)
- Non-registered retirement savings plans (RSP)
- Guaranteed Investment Certificates (GIC)
- Segregated funds (35 funds marketed)
- Mutual funds (externally-managed)
- Registered Education Savings Plans (RESP)
- Locked-in retirement accounts (LIRA)

Retirement Products

- Registered Retirement Income Funds (RRIF)
- Life Income Funds (LIF)
- Life and fixed-term annuities

Clientele

- Industrial Alliance and IA *Pacific* Life target the middle-income families market
- National Life primarily caters to high-income clients
- Contracts in-force: over one million insurance contracts and over 280,000 savings and retirement contracts

Distribution Networks

- Career agents
- Insurance brokers (General Agents network)
- Securities brokers (National Accounts network)
- Alternative distribution methods

INDIVIDUAL ANNUITIES

Business Growth

Premium income for the Individual Annuities sector in 2001 amounted to $529.1 million, down 14% from 2000 (Figure 14). This is primarily due to the downturn of the stock markets, which made investors more cautious in 2001.
We should also keep in mind that the Company's RRSP campaign did exceptionally well in 2000, due in large part to the demutualization of Industrial Alliance. Many clients took advantage of the Company's special offer to put the benefits they received from the stock company conversion towards the purchase of an RRSP.

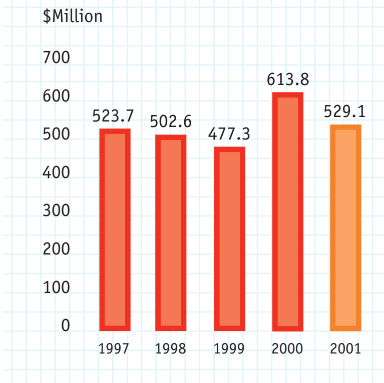
Despite the instability of the markets, net premiums of segregated funds (i.e. gross premiums less surrenders) remained positive at $199.0 million. According to industry data, the Industrial Alliance Group ranked fourth in Canada in the entire segregated funds industry for its net premiums in 2001, capturing 9.0% of the market.

Total funds under management, which includes segregated funds (with variable income) and general funds (with guaranteed interest rates) remained on par with last year, amounting to $4,650 million as at December 31, 2001 (Figure 15). Assets in the mutual fund and segregated fund industry also remained at a standstill in 2001. Seen over a longer period, however, assets under management for the Industrial Alliance Group grew at an average annual rate of 9.5% over the last five years.

Primary Achievements

The Individual Annuities sector finalized three major acquisitions in 2001 and at the beginning of 2002. Industrial Alliance acquired the assets of Groupe Financier Concorde, a company operating in the mutual fund distribution market, as well as ISL-Lafferty Securities and certain assets of BNP (Canada) Securities, two full-service stock brokerage firms. These acquisitions are designed to help Industrial Alliance offer a more

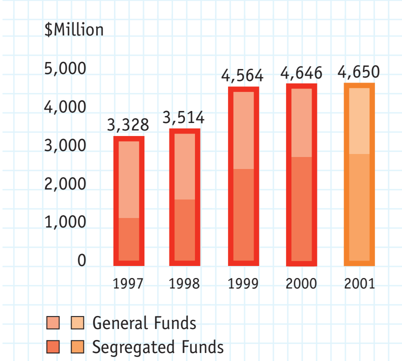
14 Premiums
Individual Annuities



comprehensive range of wealth management products, and will enable us to offer our products in a variety of financial services sectors, including life and health insurance, mutual funds, trust services and securities brokerage.

In addition, we expanded our product line considerably in 2001. One of the biggest initiatives in this regard was the launch of a new family of investment funds. This family now contains 35 segregated funds, which were chosen to give investors a diverse range of investment options in terms of asset class, geographic region and management style. These funds are marketed by all three of the Group's life insurance companies, and include a new guarantee of capital upon death or maturity, placing the Group in a favourable position as compared to the industry.

15 Funds Under Management
Individual Annuities



We also launched a number of new products in 2001, and made significant improvements to existing ones. In particular, we:

- Launched a new investment fund, the Alternative Guaranteed Investment (AGI). This is a five-year term investment with a 100% guarantee on the capital. The AGI is a hedge fund.
- Introduced a five-year progressive-rate guaranteed investment that offers a guarantee on the capital and on the returns.
- Launched a dollar-cost-averaging concept through the Money Market Fund.

From a customer service standpoint, we launched a new secure Internet site at the very beginning of 2002. This site enables clients to obtain information about their individual savings and retirement contracts 24 hours a day, 7 days a week.

With regard to distribution, we signed an agreement with La Capitale Services Conseils, the distribution network of a Quebec life insurance company. Under this agreement, La Capitale representatives will distribute Industrial Alliance's segregated funds and registered education savings plans (they have already been distributing Industrial Alliance's universal life policy for about a year).

Lastly, on the technology front, we finalized the implementation of the automated transaction process in 2001. Our accumulation products are now available through the FundSERV network, which considerably simplifies the representatives' task of managing mutual funds and segregated funds.

Strategy

The strategy of the Individual Annuities sector is largely based on that of the Individual Insurance sector. We therefore plan to continue capitalizing on the complementary relationship between these two sectors by giving representatives access to a full range of financial products and services.

Our main challenge in this sector, however, will be dealing with the competition from all the financial institutions, which distribute primarily mutual funds as opposed to segregated funds. It was for this very purpose that we acquired a mutual fund distributor and two securities brokerage firms over the past few months. One of our objectives for 2002 will be to grow these organizations so they can quickly achieve a critical mass.

Individual Annuities

Key Success Factors

- Competitive fund performances
- Innovative products
- Competitive compensation
- Ability to build and manage several distribution networks
- State-of-the-art sales and management tools
- Outstanding customer service
- Low unit costs
- Computerized transactional process (FundSERV)

Competitive Advantages

- Size and number of distribution networks
- Strong regional brands
- Entrepreneurial spirit that drives all companies in the Group
- Quick reaction time to the market
- Reputation for excellence and financial soundness

Strategy

- Capitalize on the Individual Insurance distribution network
- Offer a comprehensive range of wealth management products
- Constantly encourage more representatives to become financial planners
- Offer high quality client service, by giving clients access to their personal file through electronic means

In order for our representatives to be able to meet the more diverse needs of our clients, they need to have the necessary qualifications. With this in mind, we plan to continue our efforts to have more and more representatives obtain their financial planner license. So far, this license is held by over 600 representatives.

We plan to continue developing certain specialized segments. That is why we launched a second registered education savings plan at the beginning of 2001. This plan complements the education savings plan we launched one year earlier. Sales growth in this product line is in line with management's expectations.

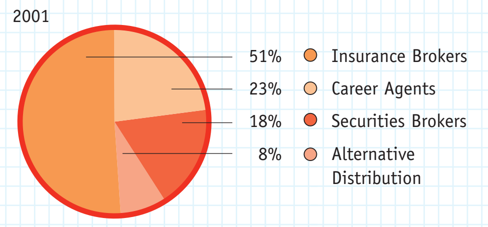
DISTRIBUTION NETWORKS

The growth and reputation of the Industrial Alliance Group rest largely on the size, diversity and dynamic nature of its distribution networks. The Group distributes its individual insurance and annuity products through four distribution networks: two "traditional" networks, i.e. the Career network and the insurance brokers network, and two "new" networks, i.e. the securities brokers network and the "alternative" network.

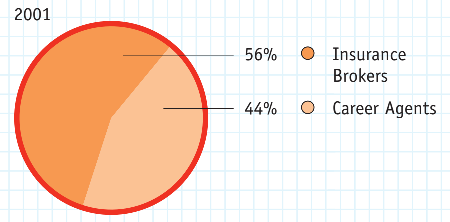
The Career and insurance brokers networks account for 74% of individual life insurance sales and all individual annuities sales (Figures 16 and 17). The fastest growth, however, is seen in the two new distribution networks, i.e. the securities brokers network or alternative methods of distribution.

As you can see, the Industrial Alliance Group is creative when it comes to distribution. We are not dogmatic in our approach, but instead use every method available to reach clients and respond to their needs in the manner that is most suitable for them.

16 Sales by Network
Individual Insurance



17 Sales by Network
Individual Annuities



Turning Potential into… …Performance

"I like the quick reaction time required when playing hockey and the team spirit that this sport engenders. Group insurance is the same: you have to be able to make the right decision quickly and work as a team towards a common goal."

Michel Rouette, Director, Underwriting, Group Insurance, Industrial Alliance

Group Insurance

- 5th in Canada with respect to sales in our target market of 50 to 1,000 lives, with 7.9% of the market (employee plans)
- 1st in Canada with respect to sales in the automobile dealers creditor insurance market, with over one third of the market

The Group Insurance sector had an excellent year in many regards. Employee plan sales reached record levels, and our activities in this market showed increased profitability. We also implemented a unique organizational structure for the three companies of the Group that are active in the employee plan market, an important step toward making the Industrial Alliance Group a national organization. In the creditor insurance market, we further strengthened our dominant position with the acquisition of two organizations operating in the automobile dealers insurance market, one in Quebec and the other in the Prairies. This market niche also showed excellent growth and profitability in 2001.

Review of Environment

In light of an aging population and the introduction of new, costly drugs on the market, medical expenses continue to climb in both the private and public sector. In an attempt to identify solutions for dealing with this situation, the governments have set up a number of commissions and task forces. For instance, the federal government set up the Commission on the Future of Health Care in Canada, headed up by Roy Romanow, whose mandate is to put forth recommendations by the end of 2002 regarding policies and measures that will ensure the long-term viability of the Canadian health care system. In Quebec, the *Comité sur la pertinence et la faisabilité d'un régime universel public d'assurance médicaments*, a committee responsible for examining the relevance and feasibility of a universal drug insurance plan, submitted its report on December 5, 2001. This document recommended maintaining a combined plan of public and private insurance, in addition to certain adjustments in the area of funding. In Alberta, the Mazankowski report recommended increased involvement of the private sector in health care. We will wait to see what kind of repercussions these various recommendations will have on the insurance industry in 2002.

The industry consolidation continued in the insurance market with new mergers and portfolio acquisitions. This consolidation could translate into some interesting opportunities for Industrial Alliance, which is continuing to pursue its objective of increasing its share of the group insurance market throughout Canada.

Business Growth

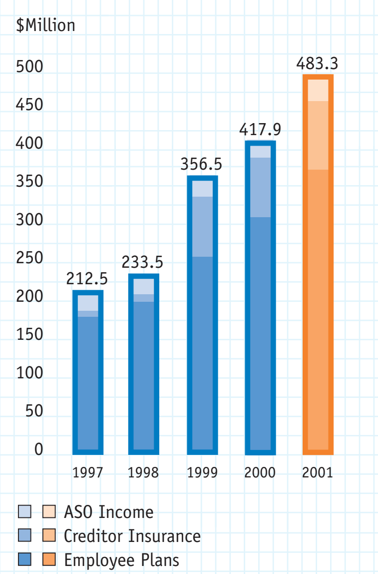
Premium income, including administrative services only (ASO) contracts, reached $483.3 million for 2001, an increase of 16% over 2000 (Figure 18).

For employee plans, a large portion of this growth comes from favourable sales figures and premium increases on contract renewals. Once again this year, we saw a sharp increase in claims, particularly in supplemental health insurance. It should be noted that certain expenses formerly covered under public plans are now eligible for reimbursement under private plans, as is the case with certain paramedical expenses in British Columbia.

Employee plan sales reached $65.6 million (first-year annualized premiums) (Figure 19), a 66% increase over 2000. Sales were up in all parts of the country, with sales growth in our target market—groups of 50 to 1,000 employees—being almost two and a half times higher than industry growth. This puts us fifth in this market niche in Canada. Contracts written with three major groups and favourable results in the special risks sector played a big role in this year's positive performance.

Premium income for creditor insurance reached $108.0 million in 2001, up by 8% over last year. Thanks to this excellent performance, we were able to remain the Canadian leader in the automobile dealers creditor insurance market. Industrial Alliance is the only company that maintains a national direct distribution network in this market niche.

18 Net Premiums and ASO Income
Group Insurance
Employee Plans and
Creditor Insurance



Group Insurance Employee Plans

Key Success Factors

- Strong relationships with key distributors
- Ability to provide flexible business solutions to clients
- Effective claims management, especially in disability insurance
- Ability to provide above-average service at competitive prices
- Accessibility for clients

Competitive Advantages

- Leading-edge technology
- Ability to provide innovative solutions
- Proactive disability management
- Service centres across Canada
- Regional underwriting teams
- Personalized service

Strategy

- Market under three company brands
- Promote our national service capabilities and best practices
- Offer competitive products and services like Internet and disability management
- Maintain and build preferred relationships with distributors
- Connect with excellent third party providers
- Stay focused on our target market (50 to 1,000 lives groups)
- Build on our Quebec large group market experience, for clients across Canada

Description of the Group Insurance Sector

The Company is active in three markets in the Group Insurance sector: employee plans, creditor insurance and special risks.

In the employee plans market, the Group Insurance sector offers life, health and disability income insurance products. The Company is particularly active in the 50 to 1,000 employees market and manages the plans of several large companies. These products are also offered on an administrative services only (ASO) basis.

The Group's three companies distribute traditional employee plans and related products throughout Canada. The parent company distributes these products in Quebec and the Atlantic Provinces, while National Life serves Ontario and markets products in Western Canada under the name IA *Pacific* Life. Industrial Alliance capitalizes on the quality and range of its client services and the control of its operating expenses to stand out from the competition.

The Company also offers creditor life and disability insurance products. These products are offered to the clients of financial institutions and owners of vehicles purchased from automobile dealers, a market where the Company is a leader in Canada.

The Group also offers insurance plans for special risks to employers and associations throughout Canada through IA *Pacific* Life's SMG Group.

Products and Services

- Life, accident, accidental death and dismemberment insurance
- Health and dental care insurance (including insurance for medical expenses)
- Short- and long-term disability income insurance
- Medical assistance outside of Canada
- Critical illness and home care insurance
- Health spending accounts
- Employee and employer support programs:
  - Employee assistance program (EAP)
  - Disability management
  - Management of absenteeism
  - Drug payment card

Clientele

- Employee benefit plans
  - Small- and medium-sized businesses
  - Large businesses
- Creditor insurance
  - Clients of automobile dealers
  - Clients of financial institutions
- Special risks
  - Small- and medium-sized businesses
  - Members of associations

Distribution Networks

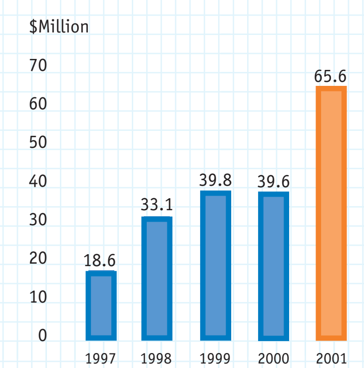
- Career representatives
- Specialized brokers
- Actuarial consulting firms
- Automobile dealers
- Financial institutions

Business Development

Industrial Alliance distributes its products for employee plans under three regional brand names. All new group contracts in Quebec and the Atlantic provinces are underwritten by Industrial Alliance, while new group contracts in Ontario are underwritten by National Life, which also handles the marketing and administration of products for new groups in western Canada under the name IA *Pacific* Life. The Group's strategy is to make the most of its status as a national organization while allowing clients to take advantage of personalized local service through offices in six Canadian cities: Moncton, Quebec City, Montreal, Toronto, Calgary and Vancouver.

The SMG division of IA *Pacific* Life is responsible for developing the special risks market for employers and associations. SMG has sales offices in Toronto, Calgary and Vancouver, and will also be opening one in Montreal in 2002.

19 Sales
Group Insurance
Employee Plans



IA *Pacific* Life also handles business development for the automobile dealers creditor insurance market. The Company strengthened its presence in this market niche this year with the acquisition of Aegis, an insurance company from the Prairies, and Groupe GPS, a broker from Quebec. These acquisitions were finalized in the summer of 2001, enabling us to increase our market share in Saskatchewan, Manitoba and Quebec.

Industrial Alliance also maintains a partnership with a Canadian bank for the management of its creditor insurance business. The business volume generated by this bank grew considerably in 2001, due in part to the acquisition of several new branches. We actively assist our partner in improving its business processes and in designing new products such as credit card balance insurance, for example, which will be launched at the beginning of 2002.

Technology and Customer Service

A number of technology projects were carried out in 2001 as part of the process to improve our service offer and the quality of our customer service.

At Industrial Alliance, one of these projects was the implementation of an interactive voice response system for employee plans, a service already offered to National Life and IA *Pacific* Life clients. In addition, Industrial Alliance insureds now receive a preprinted claim form with their medical expense reimbursements.

Another project was the automation of Health Spending Accounts (HSAs), which we integrated into the management of health and dental care benefits. These accounts are used to pay eligible medical and dental expenses that members would otherwise have to pay themselves, and which are not reimbursed under their group insurance plan.

We also converted National Life business to the TANGO system—a major project for the year. The conversion will be completed at the beginning of 2002, and enables us to manage client contracts held with all three of the Group's life insurance companies across Canada using a single platform.

In an effort to offer our clients the benefits of the Internet, we also implemented a transactional Internet site known as Web@dmin. This user-friendly site responds to a variety of needs expressed by plan administrators and members. Some of the features available to administrators include the ability to manage their plans on line, send us employee movement reports electronically, and consult their most recent statements. Members, on the other hand, can get a detailed description of their coverage and gain access to information about their claims.

Finally, Industrial Alliance launched an internal rehabilitation service for businesses. During the initial weeks of disability, we identify people who are likely to benefit from this service and help them accelerate their return to work. This service is highly valued by our clients, and has already produced positive results in the area of short-term disability insurance.

Distribution Networks

Industrial Alliance distributes its employee plan products through three distribution networks. Two of these networks, the specialized brokers and actuarial consulting firms, cover the entire country. The third group is made up of Industrial Alliance representatives.

Industrial Alliance also has a group insurance sales support team that works with the various networks to promote products and provide assistance and technical support during the sales and client service process. This sales team serves the Canadian market through bases in six cities: Moncton, Quebec City, Montreal, Toronto, Calgary and Vancouver, reflecting the geographic distribution of our operations (Figure 20).

The SMG division of IA *Pacific* Life is responsible for ensuring the development and smooth operation of the special risks market for employers and associations. With offices in Toronto, Calgary, Vancouver, and Montreal, SMG has a Canada-wide presence. Its products are sold through two distribution networks, i.e. the specialized brokers and actuarial consulting firms.

A direct sales network handles the distribution of creditor insurance products to automobile dealers. This network has over 40 representatives in eight regional

Group Insurance
Automobile Dealers Creditor Insurance

Key Success Factors

- Product expertise
- Ability to build and manage an effective distribution network
- Efficiency of operations

Competitive Advantages

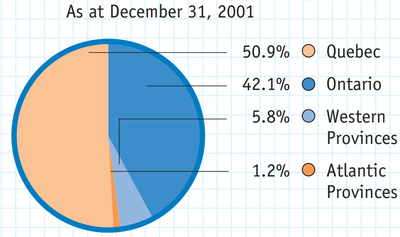
- Direct sales team specializing in and exclusively dedicated to the sale of automobile dealers creditor insurance
- Canada-wide presence
- Over 39 years of experience in the field

Strategy

- Grow creditor insurance premiums and maintain the number 1 position in Canada
- Expand revenues generated from ancillary products
- Improve operational efficiencies to maintain our competitive position and improve margins

20 **Geographic Distribution of Sales**
Group Insurance
Employee Plans

As at December 31, 2001



offices across Canada, specializing in all types of insurance distributed through automobile dealers. IA *Pacific* Life is responsible for distributing these products for the Group, through SAL Group.

Strategy

With respect to business growth in the employer/employee market, we intend to pursue our strategy of increasing our market share in the business market made up of organizations of 50 to 1,000 employees. This market offers the potential of greater profitability margins. We will, however, remain active in the business market of 10 to 50 employees, as well as the large business market. In the latter sector, we will focus on groups that offer a good potential for profits, as we did in 2001.

We are maintaining our distribution strategy with selected brokers with whom we have regular contact. We want to offer them extra services, particularly with respect to access to the financial information on their plans.

In terms of profitability, our success relies on controlling operating expenses and carrying out a strict follow up of loss ratios for each benefit and each market segment. In this respect, we will continue to propose practical solutions to our clients and help them manage their plans. We will also continue to assist them with the management of disability-related absences.

Our objective in the automobile dealers creditor insurance market is to offer innovative insurance products to our distributors and our clients. In addition to creditor insurance products, we offer a wide range of ancillary products such as extended warranty insurance and other related products which we make available to automobile, RV and recreational product dealers. Our ancillary products allow us to compete efficiently with brokers who, for the most part, offer a full range of products to the automobile market segment.

Turning Potential into...

"All of my soccer teammates have the same objective: winning. At work, each new mandate we obtain is also a team victory because it is the end result of a collaborative effort."

David Vanasse, Sales Representative, Group Pensions, Industrial Alliance

...Performance

- Among the top five in Canada in single premium insured annuities
- Among the top five in Quebec for deposit accumulation contracts

Group Pensions

Group Pensions had a good year in 2001. The sector made some important strategic achievements throughout the year, including an administration agreement with National Bank Trust, a new type of partnership with the Canadian Medical Association, as well as the systems conversion of National Life policies and the amalgamation of this subsidiary's distribution activities with those of the parent company. Another significant achievement was that despite the turbulence of the various markets, the Group Pensions sector made it through 2001 without any major negative impact on results. Record sales were even recorded for insured annuities.

Business Growth

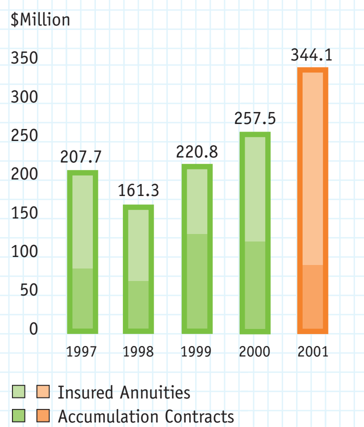
Sales totalled $516.1 million, in 2001 down 23% from 2000. This decrease is largely due to the fact that as of July 1, 2001, our results no longer include the premiums for the Canadian Medical Association contract. These premiums are now carried by MD Life, a company jointly created by MD Management and National Life, which have been partners for over 40 years.

In terms of accumulation contracts and insured annuities alone (in order to make a fair comparison), sales grew by 34% over the previous year, to reach $344.1 million (Figure 21). This increase is primarily due to the sector's exceptional performance in the sale of insured annuities.

Accumulation Contracts

Accumulation contracts sales reached $106.4 million in 2001, representing a 24% drop over the previous year. It is important to keep in mind, however, that the results posted in 2000 included non-recurring premiums of approximately $28 million generated by the benefits policyholders received from the demutualization of Industrial Alliance. If we exclude these non-recurring premiums from the previous year's results, the decline observed in 2001 amounts to only 5%.

21 Sales[1]
Group Pensions



[1] Gross Premiums and Deposits Excluding Canadian Medical Association

It is also important to note that the premiums entered on an accounting basis do not adequately reflect all the efforts put forth in 2001 to search out new clients or to underwrite new agreements. For example, there are a few large transfers associated with sales made in 2001 that will not be posted until they actually materialize in 2002. Moreover, we practically doubled the number of quotations submitted compared to 2000, and considerably increased sales in Quebec. We expect to reap the rewards of these initiatives during 2002 and in subsequent years.

One of the highlights of 2001 for accumulation contracts was the signing of an agreement with National Bank Trust under which we provide the administration of the Trust's group retirement plans. This new agreement takes effect on January 1, 2002, and involves some 1,400 plans with 33,000 members and assets totalling more than $430 million. We estimate that approximately $50 million in recurring annual premiums will be generated by this agreement. This large block of business will help reduce our unit costs while making our investments in technology over the past five years more cost-effective.

Insured Annuities

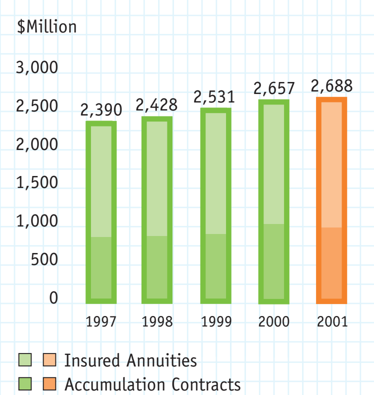
Insured annuities sales achieved record levels in 2001, with gross premiums collected totalling $237.7 million, up by 102% over the previous year. These results are the best ever recorded by the Company for this market segment. Even more impressive is the fact that these results were achieved in a low interest rate environment, one that is not generally conducive to the sale of this product.

Our expertise in this niche is widely acknowledged throughout all of Canada. It is a very competitive market but, a characteristic of this market is that the number of competitors is small. The relatively high capital requirements prevent many insurers from even entering this market.

Funds Under Management

Funds under management in the Group Pensions sector amounted to $2.7 billion as at December 31, 2001, down 35% from December 31, 2000. This drop is largely due to the transfer of $1.6 billion from the "segregated funds" portion of the Canadian Medical Association contract to MD Life during the year. If we exclude this contract, funds under management increased by some $30 million compared to the previous year (Figure 22).

22 Funds Under Management[1]
Group Pensions



[1] Excluding Canadian Medical Association

Funds under management for accumulation contracts amounted to $1.0 billion as at December 31, 2001, down 4% from December 31, 2000. This drop is primarily due to low returns on the various stock markets in 2001. Most of the monies generated by these returns are invested in segregated funds, which contain a very large proportion of equity investments.

For insured annuities, funds under management reached $1.6 billion as at December 31, 2001, an increase of 5% over December 31, 2000. This significant increase owes its success to the exceptional sales results achieved during the year. It should be noted that it is more difficult to record an increase in funds under management for this type of product given the amount we are paying out in annuities.

Group Pensions

Key Success Factors

- Strong relationships with distributors
- Variety of investment alternatives
- Outstanding customer service

Competitive Advantages

- Good quality/price ratio
- Up-to-date administrative systems with good Internet facilities
- Openness to small- and medium-sized businesses
- Widely recognized expertise and competitiveness in group single premium insured annuities (SPIA) business

Strategy

- Increase distribution capacity (mainly outside Quebec)
- Proactively search for strategic agreements that would allow the Group to grow more rapidly than through internal networks alone

Technology

On the technology front, 2001 was marked by two major systems conversions—the conversion of National Bank Trust's group retirement plans, and the conversion of National Life's accumulation contracts. It is interesting to note that very few system modifications were required to adapt to the various features of these products.

We also designed two new Internet sites in addition to the site launched last year for plan members. One of the new sites is reserved for representatives and is designed to help them serve their clients more effectively, while the other is reserved for retirement plan administrators and is designed to facilitate the task of administering their plans.

Distribution Networks

Group Pensions distributes its products through three Canada-wide distribution networks. The first consists of actuarial consulting firms; the second of specialized group insurance brokers interested in optimizing their business relations by offering retirement solutions to their clients; and the third is made up of brokers and career agents associated with the parent company. Different distribution strategies are favoured by each of the networks. This helps the networks to adapt the products to the knowledge and abilities of the companies and representatives in the various networks.

Strategy

In terms of business growth, we will pursue our strategy to increase our market share in the small business market, which appears to offer the best short- and mid-term growth potential. Penetration of this market is currently very good in Quebec, and our new agreement with National Bank Trust will strengthen our privileged position even further in this province. We also plan to significantly increase our presence in Ontario and the Atlantic provinces over the next few years.

In terms of technology, we will continue to favour the development of Internet applications for our clients and distribution networks to facilitate plan administration and meet the expectations of an increasing number of clients who are using the Internet as a method of communication.

In terms of profitability, the ability to control operating costs, search out strategic agreements with other partners and closely monitor the mortality experience of the annuitants will definitely constitute key success factors for this sector.

Description of the Group Pensions Sector

The Group Pensions sector offers specialized products and services adapted to the needs of pension plan members. These products and services are divided into two main families.

The first, insured annuities, offers a choice of annuity contracts guaranteed by the Company. Industrial Alliance is a Canadian leader in this field with widely acknowledged expertise.

The second family is made up of retirement savings accumulation vehicles. It includes full investment and administration services for defined contribution and defined benefit plans, group RRSPs and deferred profit sharing plans. Clients who are members of these plans have access to a wide range of investment options, including guaranteed investment certificates and a family of 52 segregated funds. These funds are managed by conscientious professionals both within and outside of the Company. They offer investment diversity in the primary global economies and various asset classes (stocks, bonds, etc.) and according to various management styles.

Products and Services

- Defined contribution plans
  - Registered Pension Plans (RPP)
  - Simplified Pension Plans (SPP)
  - Group Registered Retirement Savings Plans (RRSP)
  - Deferred Profit Sharing Plans (DPSP)
- Defined benefit plans
  - Registered Pension Plans (RPP)
  - Individual Retirement Plans (IRP)
- Annuity products
  - Insured or guaranteed annuities
  - Locked-in Retirement Accounts (LIRA)
  - Registered Retirement Income Funds (RRIF)
  - Life Income Funds (LIF)
- Investment vehicles
  - Segregated funds (52 funds marketed)
  - Guaranteed Investment Certificates (GIC)
  - Dynamic Asset Management
- Interactive vocal response system and Internet access

Clientele

- Small- and medium-sized businesses
- Contracts in-force: about 4,500 contracts covering over 125,000 members

Distribution

- Career representatives
- Specialized brokers
- Actuarial consulting firms

Turning Potential into...

Julie Leclerc, Director, Administration, Securities, Industrial Alliance

...Performance

Investments

- $15.1 billion of assets, a 7% increase
- Excellent quality of investments
- Proportion of impaired investments: 0.28% (0.26% in 2000)
- Bonds rated BB or lower: 0.03% (0.23% in 2000)
- Mortgage portfolio delinquency rate: 0.48% (0.23% in 2000)
- Occupancy rate of real estate holdings: 96.3% (96.7% in 2000)
- Very strict matching: duration spread of 0.05 years
- Proportion of segregated fund assets with an above-median return: 75%

The Company's investment activities are divided into three sectors: Securities, Mortgage Loans, and Real Estate Investments. Although the asset management activities for these sectors are carried out in Quebec City, Toronto and Vancouver, the investment activities for the entire Group have been combined and are now under one administration. The purpose of this structure is to make maximum use of resources and have all Group companies benefit from the knowledge and expertise developed by each one.

The investment objective of general fund investment services is primarily to ensure capital protection while providing optimal returns, whereas the objective of segregated fund investment services is to maximize total return for unit holders while controlling undue risk of capital loss, in accordance with the objectives of each fund.

In 1996, the Company began entrusting the management of certain segregated funds to external managers so that clients would have a wider choice of investment vehicles and management styles.

Economic and Financial Environment

In 2001, investment services were forced to adapt to a rather difficult economic environment characterized by a slowdown in the economy and by declining, volatile stock markets.

After a decade of continuous economic growth, prospects for 2001 appeared to be more sombre, with a number of indicators pointing to a slowdown in economic activity. In order to ease the impact of a sudden slowdown in the economy, the Canadian and U.S. central banks dropped key interest rates several times throughout the year. In doing so, interest rates were reduced to their lowest levels in over 40 years, dropping by 350 basis points in Canada and by 475 basis points in the U.S.

As soon as the monetary authorities started lowering interest rates, many observers thought the economy would pick up and a recession would be avoided. However, despite the best efforts of the central banks, the threat of a recession continued to loom throughout the year.

In the third quarter of 2001, the U.S. economy experienced negative growth for the first time in ten years. In the midst of the concerted efforts to avoid a recession in North America and elsewhere in the world, the terrorist attacks of September 11 clouded economic prospects further, worsening an already difficult situation.

The economic slowdown played havoc with the stock markets. From January 1 to September 11, the precarious condition of the economy and declining corporate profits got the better of the markets. The North American stock exchanges were closed in the days following the attacks, and upon reopening, stock market indexes plummeted. It was not until September 21, when stock market indexes hit their lowest level of the year, that the markets started to pick up again. Despite this improvement, the TSE 300, S&P 500 and the Nasdaq still ended the year with negative returns of –12.6%, –6.4% and –28.4% respectively.

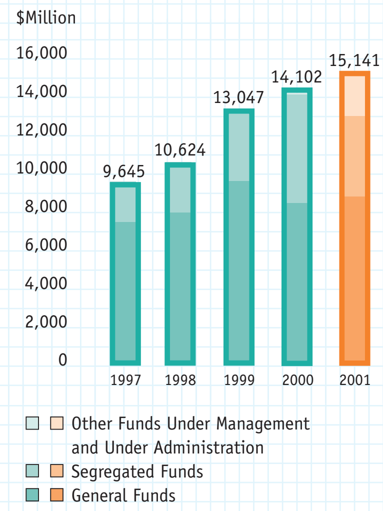
In contrast, the bond market thrived in the 2001 economic environment. For the second year in a row, bonds generated the highest yields on the market. The Scotia Capital Markets Universe Bond Index, for example, boasted a return of 8.1%, far surpassing the yields of Canadian, U.S and foreign equities.

Most economists are now predicting a recovery in 2002. Once again, the U.S. will have to act as the locomotive for the world economy. Experts still expect that Japan, which makes up the second world economy, will experience negative growth in 2002 and that Europe, which now has a single currency, will experience only modest growth.

Assets Under Management and Under Administration

Despite a general drop in stock market securities in 2001, the Company's assets continued to grow throughout the year, bringing assets under management and under administration up to $15.1 billion as at December 31, 2001, a 7% increase over the last twelve months (Figure 23). Company assets are composed of the general fund assets of the companies in the Group, representing $8.9 billion, as well as segregated fund assets totalling $4.0 billion, and other assets under

23 Assets Under Management and Under Administration



management and under administration in the amount of $2.2 billion.

It should be noted that the contract managed on behalf of the Canadian Medical Association was transferred during the year to MD Life, a new insurance company created jointly by MD Management and National Life. The transferred funds represented an amount of $1.8 billion at the end of 2001.

Since this transfer, the assets under this contract have been classified as other funds under management and under administration instead of segregated funds. We also classified all the funds of Investia, our mutual funds subsidiary, along with those of our trust subsidiary, as other funds under management and under administration. The growth in assets throughout the year is primarily a result of these new initiatives, almost all of which were launched in 2001.

Asset-Liability Matching and Investment Program

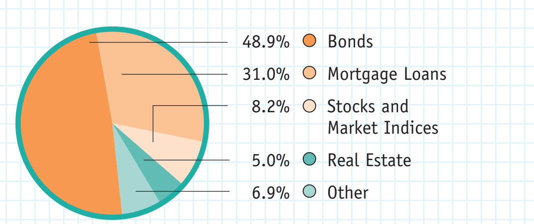
Most of the Company's insurance and annuities investments are concentrated in fixed-income securities (bonds and mortgage loans in particular) (Figure 24). Assets matched to the Company's surplus are essentially used to obtain long-term growth and to optimize after-tax returns.

Although obtaining a steady improvement in returns is a day-to-day concern of the Group's portfolio managers, our general fund investment policies focus primarily on capital protection and the maintenance of strict matching between the asset and liability financial structures in order to guard against the risks associated with interest rate fluctuations.

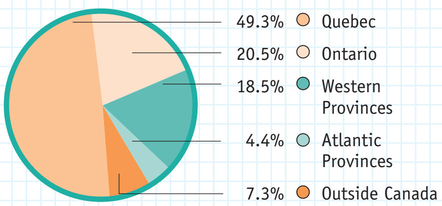
As at December 31, 2001, the spread between the duration of Company assets and liabilities was 0.05 years, well within the 0.25-year tolerance level stipulated by our investment policies. This statistic excludes the very-long-term commitments of the Individual Life Insurance sector for which we favour an active management strategy aimed at maximizing the return of a high-quality investment portfolio.

The Company entered into swap agreements for which cash flows are calculated on a total notional amount of $653.7 million. These agreements are used for managing financial risks, in particular those associated with interest rate and market value fluctuations, and for investing a portion of the capital and surplus of the companies in the Group. The current credit risk, which corresponds to the amounts payable to us by the various counterparties, was $19.1 million as at December 31, 2001 ($0.9 million as at December 31, 2000). The future credit risk associated with these agreements, which represents the amount that the counterparties could eventually owe us

24 Distribution of Investments by Asset Class
As at December 31, 2001



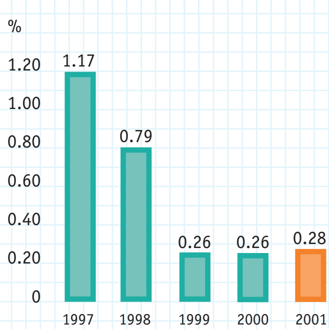
25 Distribution of Investments by Region
As at December 31, 2001



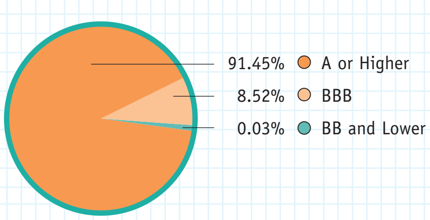
according to various market scenarios, is $30.7 million as at the same date ($21.4 million as at December 31, 2000). All counterparties with whom we have signed such agreements are first-rate financial institutions.

The Group's investments are well diversified among issuers and operating sectors, as well as geographically, in accordance with sound asset management principles, as defined in the investment policies (Figure 25).

26 Impaired Investments as a Percentage of Investments



27 Distribution of the Bond Portfolio by Credit Rating
As at December 31, 2001



Quality of Investments

The quality of the Company's assets is excellent. In this regard, impaired investments represented only 0.28% of all investments as at December 31, 2001 (0.26% as at December 31, 2000) (Figure 26). Impaired investments are composed of defaulted bonds and mortgage loans in arrears for three months or more, as well as restructured loans and other defaulted investment securities.

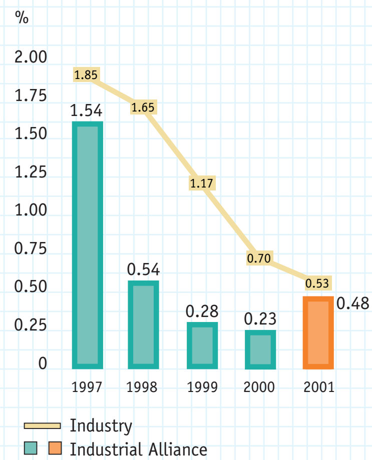
The bond portfolio continues to be of very good quality. In accordance with the rules defined in the investment policies, the Company invests in bonds that were rated BBB or higher at the time of acquisition. As at December 31, 2001, 91.45% of the bond portfolio was made up of securities rated A or higher, and bonds rated BB or lower represented only 0.03% of the portfolio (Figure 27).

The quality of the mortgage loans portfolio compares favourably with the industry overall. The proportion of loans in arrears as at December 31, 2001 was 0.48% (0.23% as at December 31, 2000), whereas the industry rate was 0.53% (according to a survey by the Canadian Life and Health Insurance Association) (Figure 28). This figure includes both insured and uninsured loans.

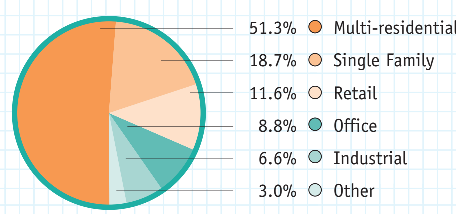
Virtually all mortgage loans are secured by first mortgages. Furthermore, 40.9% of the portfolio is made up of insured loans, and 70.0% of the loans are secured by single-family residential or multi-unit residential properties (Figure 29).

The occupancy rate with regard to the Company's real

28 Delinquency Rate of the Mortgage Loans Portfolio



29 Distribution of the Mortgage Loans Portfolio by Property Type
As at December 31, 2001



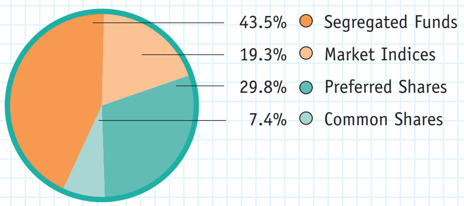
estate portfolio was 96.3% as at December 31, 2001 (96.7% at the end of 2000), and compares very favourably with that of commercial rental properties in large Canadian cities.

Investments in equity securities are used to match very-long-term commitments, to cover the commitments on certain universal life policies, or to invest a portion of the Company's capital. The market value of the stock and equity indices portfolios was equal to 98.2% of their book value as at December 31, 2001 (102.1% as at December 31, 2000).

Note that stock market fluctuations have very little direct impact on the Company's net income. In fact, 62.8% of the stock and market indices portfolio, totalling $703.2 million, is composed of segregated funds and market indices, 30

Distribution of Stocks and Market Indices by Category

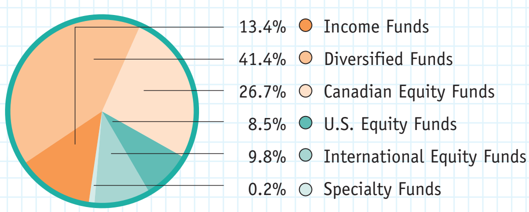
As at December 31, 2001



31

Distribution of Investment Funds by Fund Category

As at December 31, 2001



which are primarily used for matching universal life insurance policies. These assets are carried at market value and any fluctuation in their value is posted to the universal life policyholders. Furthermore, 29.8% of the portfolio is made up of preferred shares, with common shares accounting for a mere 7.4% (Figure 30).

Segregated Funds

Our family of investment funds is made up of funds offered to our various individual and group sector clients. The Industrial Alliance Group offers 89 funds in all. Of this number, 35 make up our primary family of funds for the individual sector (a family of funds that we actively promote). In addition, we have another 17 funds that make up the primary family of funds for the group sector.

In 2001 we made changes to our primary family of funds for the individual sector. We wanted to offer our clients the most comprehensive and performing family of funds possible. The result was a family of funds, now offered by all three of the Group's life insurance companies, that covers each major asset class and offers good geographic diversification (Figure 31). It also offers a variety of complementary management styles, and enables clients to benefit from the expertise of our own in-house managers as well as carefully selected external managers. Our experienced team of in-house managers is responsible for managing 27 funds, or 64% of all assets under management, based on an in-depth analysis of the North American economy and the Canadian markets.

Our external managers are responsible for 62 funds. In 2001, Talvest Fund Management and Legg Mason Funds Management were added to our list of external managers, which now total 15. Each external manager is assessed and selected based on their expertise, the quality of their management process, and other defined qualitative and quantitative factors. Our external managers include some of the biggest names in the industry such as Fidelity, Templeton, AGF and State Street Global Advisors.

These managers are responsible for approximately 75% of the fund assets entrusted to external managers.

Despite the significant downturn in the markets in 2001, the total net assets of the investment funds (excluding independent pension funds and the Canadian Medical Association contract) grew from $3,520 million as at December 31, 2000 to $3,529 million as at December 31, 2001. The change in total net assets of the investment funds in 2001 is illustrated in the following table.

Variation of Net Investment Fund Assets

$Million

Balance as at December 31, 2000	3,520
Net Unit Issues	140
Operating Expenses	(77)
Net Investment Income	(54)
Balance as at December 31, 2001	3,529

The performance of the investment funds offered by the Industrial Alliance Group was also quite favourable, with 40 funds, representing 75% of the total net assets of the investment funds, generating an above-median return in 2001 (see the table below). Of all the funds managed in-house, 82% of the net assets are above the median.

The return on our investment funds and the detailed financial information associated with these funds are presented in the investment funds' annual financial reports prepared by the companies of the Industrial Alliance Group.

Relative Performance of Investment Funds

Gross One-year Return

As at December 31, 2001

	Above-Median Yield	Below-Median Yield	Funds in Existence Less than 1 Year	Total
Number of Funds	40	37	12	89
Assets ($Million)	2,646	842	41	3,529
As a % of Assets	75%	24%	1%	100%

Risk
Management

In the last few years, the regulatory authorities have established guidelines to have companies in the financial services sector adopt standards of sound business and financial practices. These guidelines are grouped together by field of application and cover management of capital, quality of assets, mainly with respect to risk assessment and investment management, asset-liability matching, product design and underwriting, respecting commitments to the policyholders and internal control mechanisms.

The regulatory authorities require companies to establish policies and procedures with respect to the various standards and make sure the guidelines are complied with and adapted as needed to developments in the industry and on the market.

To conform to the regulatory requirements, the Company has implemented a program of policies and procedures concerning standards of sound business and financial practices. These policies and procedures have been approved by the board of directors of each Group company, who were thus able to confirm to the regulatory authorities that the requirements in terms of standards of sound business and financial practices were being complied with in full.

Below we present the management mechanisms for two specific risks, the risk of interest rate fluctuations and the risk of a stock market downturn.

Risk of Interest Rate Fluctuations

The risk of interest rate fluctuations is defined as being the risk of suffering a financial loss due to a fluctuation in the interest rates. This loss may be caused by the obligation to sell assets at a loss to meet certain commitments when the rates increase or, when the rates decrease, by the obligation to reinvest assets at lower rates when they mature before the commitments they are matched to.

The Company manages the risk of interest rate fluctuations through a matching policy that it implemented several years ago and which is updated periodically. The primary objective of this investment policy is to minimize the volatility of the profit margins caused by the fluctuations between the realized returns and those credited to existing contracts. To ensure the follow up of the matching status, investments are segmented by matching blocks, established according to the structure of required cash flows, and everything is grouped together by line of business. Asset cash flows must tend to correspond to those of the liabilities, including the liabilities of the anticipated margins over a long-term horizon for each matching block.

For the Company's annuities portfolios, which represent 49.8% of the actuarial liabilities of general funds, the Company estimates that an immediate drop of 1% in the interest rates would lead to a $1.2 million increase in the net earnings, while an immediate increase of 1% in the interest rates would lead to a $1.0 million decrease in net earnings.

In addition to ensuring the sound management of this risk through a strict matching between assets and liabilities, the Company uses prudent reinvestment assumptions when evaluating actuarial liabilities.

Risk of a Stock Market Downturn

Another risk for which the Company ensures sound management is the risk that a drop in the stock markets would lead to a financial loss. A drop in the stock markets could have an effect on the management fees collected for segregated funds, on the charge resulting from the capital guarantee offered on these same segregated funds, as well as on the return of assets backing the capital and the actuarial liabilities of the Company's general funds.

In order to ensure sound management of the risk of a stock market downturn, the Company's investment policy clearly defines quantitative and qualitative limits for the use of shares.

The Company estimates that, as at December 31, 2001, a 10% drop in the stock market, lasting for one full year, would lead to a $10.1 million decrease in net earnings.

Dynamic Capital Adequacy Testing

Moreover, the Canadian Institute of Actuaries requires that the appointed actuary present an annual report to the directors and management on the Company's current and future solvency. To do this, the appointed actuary must identify the main risks that can affect the Company's solvency, measure the potential impact and specify measures to alleviate these risks. Interest rate fluctuations and a stock market downturn are among the scenarios analyzed by the actuary. Yet, even in the absence of corrective measures by management, the Company's solvency is still higher than the standard required by the regulatory authorities for all scenarios analyzed.

Human
Resources

Turning Potential into...

...Performance

It is not by chance that the Industrial Alliance Group has grown steadily over the past few years; it is due to the hard work, skill and dedication of its human resources. We can honestly say that we owe our success to the performance of these individuals, whose contribution was instrumental in the year's major achievements summarized below.

Synergy Within the Group

In an effort to build on the previous year's shift toward greater synergy among the companies in the Group, we continued to pool the strengths of all the Group's resources in 2001. For a growing number of managers, this meant extending their responsibilities to all three of the Group's life insurance companies, as was the case in Investments, Group Insurance, Group Pensions and Control. Employees from all sectors were also asked to take part in common Group projects, making teamwork a fundamental value for the Group.

Bonus and Share Purchase Plan

In 2001 we launched a new bonus program enabling the employees of the Group's three life insurance companies to share in the financial results of the Company. 2002 will be the first time the same bonus, based on 2001 results, will be paid to all employees of the Group's life insurance companies.

In an effort to promote a sense of affiliation with the Company, the board of directors for the Group's three life insurance companies approved the implementation of a share purchase program in the spring of 2001. Under this program, employees of the Group's three life insurance companies can use up to 5% of their salary, to a maximum of $1,500 per year, to purchase shares of Industrial Alliance. In return, the Company will match 50% of every employee's contribution. After only a few months, nearly 600 employees have taken advantage of this program.

Code of Ethics

In the Company's desire to maintain its excellent reputation in this competitive industry where trust is a key factor in its success, Industrial Alliance followed the lead of the other companies in the Group by adopting a Code of Ethics and Standards of Professional Conduct. This code incorporates a number of existing regulations and applies to all Company employees, representatives, administrators and suppliers. It is designed to ensure that anyone acting on behalf of the Company does so with loyalty, honesty, integrity and professionalism. It also represents the personal commitment of all employees of the Industrial Alliance Group to respect and ensure the confidentiality of clients' personal information.

Employment Equity

Pay equity among the various employee groups has always been a fundamental value for the Company. The adoption of Quebec's pay equity legislation in 2001 gave legal merit to this principle. In the light of this new legislation, we conducted an exhaustive salary comparison for predominantly female job categories versus predominantly male categories. The study revealed that the average variance was only 1% and applied to a very limited number of positions. In accordance with the pay equity legislation, the salary adjustments required to eliminate these variances have been applied.

Performance Appraisals

Recognizing the contribution of our employees means offering fair and equitable compensation. In order to adequately assess our employees' contribution, performance management programs were reviewed and put in place for all employees of the Group. Under these programs, each team member has an opportunity to talk to their manager one-on-one about their contribution to the team, and to discuss ways of maximizing their potential. This year we revised and improved some of these programs to bring them more in line with the current standards and values promoted by the organization, thereby ensuring that performing employees are given recognition.

- Adaptation of the organizational structure to promote greater synergy within the Group
- Implementation of a Group bonus and an employee share purchase plan
- Adoption of a Code of Ethics and Standards of Professional Conduct
- Implementation of an employment equity program
- Review and improvement of the performance management program
- Significant investments in employee training
- Implementation of more effective recruiting tools
- Development of a Business Resumption Plan

Training Program

Training and the ongoing development of our employees' potential is still a primary focus for the Group. Throughout 2001, we continued to promote relevant training activities for our employees, and once again budgeted a considerable amount of money for training, far exceeding government requirements in this regard. The Company's training program promotes employee development in a stimulating, dynamic environment that also values company spirit and performance. Unlike many organizations, we do not have any difficulty keeping our resources, with a high staff retention rate of over 95% from year to year.

Recruiting

The Industrial Alliance Group has strict requirements with regard to staff recruiting and selection criteria. In today's competitive market, it is a constant challenge to find candidates offering the potential and skills that we desire. In view of our commitment to provide first-rate customer service in all parts of the country, bilingualism has become one of our basic requirements. In order to facilitate the recruiting process, in 2001 we implemented a new tool which enables us to target our recruiting activities more effectively through our Internet site. We also continued to maintain close contact with the main universities in Canada for the purpose of recruiting young university graduates. In 2001, the number of employees increased by 87 to total 2,035 employees in December.

Business Resumption Plan

In addition to the profound impact of its emotional and social repercussions, the tragic events that took place in the United States on September 11, 2001, have demonstrated the importance of an adequate business resumption plan. These events prompted us to finalize the development and implementation of our Business Resumption Plan in 2001. This plan is designed to guarantee that in a disaster situation, all possible steps will be taken to ensure that the Company's primary business activities are recovered promptly, communication with our various clients is maintained, and the protection of our employees is guaranteed.

Conclusion

The Industrial Alliance Group boasted a great many achievements in 2001 which, despite their diversity, all have one thing in common. They all reflect the desire of the Industrial Alliance Group to provide the best possible working environment for our highly talented resources whose combined expertise can enable us to maximize our potential.

Turning Potential into...

"Volunteer work is an integral part of my life. During my free time, I help underprivileged people find ways to live more comfortably; at work, I help individuals to secure their financial well-being."

Firoz Hirji,
Actuary, Group Sector,
National Life

...Performance

Our Ongoing
Community Commitment

The Industrial Alliance Group is proud to carry forward its commitment to the community year after year and to be able to continue contributing to its growth, development and wellbeing. In fact, the Company sees its commitment to the community as a natural extension of the very values that have allowed it to grow and develop over the years. This social commitment is expressed primarily through direct financial support in the form of sponsorships and donations to a large number of aid and development organizations, agencies and associations, as well as through a wide range of volunteer activities that are spearheaded by Company employees, which raise funds for the humanitarian causes they closely identify with.

As a member of the Imagine program, the Group donates 1% of its pre-tax profits to organizations that play a key role in helping their community.

A Commitment to Health, Education and Social Services

While a great number of causes are certainly deserving of financial support, Industrial Alliance Group companies particularly wish to encourage those that work to improve the quality of life of individual members of society and promote development in the area of health, education and social services.

Because of their pronounced regional presence, Industrial Alliance Group companies live at the same pace as that of the communities they serve. They can therefore intervene either directly or through local organizations or agencies wherever needs are greatest. Examples abound of the Group's social commitment to the community.

The Group gives financial support to organizations that encourage research on illnesses such as cancer, Alzheimer's disease, leukemia and heart disease and that provide assistance to people suffering from these illnesses. The Group also gives financial support to a large number of university foundations in its quest to foster higher education and the advancement of scientific research. Through a major sponsorship program, the Group also promotes education and the desire to learn in young school-age children.

- Member of the Imagine program
- Financial support for the health, education and social service sectors principally in the form of donations
- Financial support for the arts and cultural sector principally in the form of sponsorships
- Encouragement of volunteer activities
- Renewed commitment with regards to client services
- Creation of an Ombuds Office to handle customer relations

Industrial Alliance Group companies have pledged their unconditional support to the United Way for a number of years. In addition to corporate financial contributions, Group companies have also encouraged personal initiatives undertaken by their employees to give to this worthwhile humanitarian cause. Each year, Industrial Alliance releases an employee from his/her usual responsibilities for several months in order to help organize the regional campaign. The Industrial Alliance Group also made donations to both the Red Cross and the Salvation Army to show its support for the American people and the victims of the September 11 terrorist attacks.

Arts and Cultural Events

The Industrial Alliance Group also actively promotes artistic and cultural enrichment on the community level. This is accomplished mainly through its sponsorship of activities in the area of the performing arts (theatre, music, dance and shows) and visual arts (painting, photography).

Last year's headline events included the Quebec Symphony Orchestra's Family Concerts Program, of which Industrial Alliance was a major sponsor. The Éos Circus and the Éloize Circus also benefited from Industrial Alliance's generosity. As the main sponsor, Industrial Alliance was honorary ringmaster for both *Imaginaire* and *Excentricus*, two shows that were presented in 2001.

In Western Canada, IA *Pacific* Life has been sponsoring an annual concert program in elementary schools by the Vancouver Symphony Orchestra for the past ten years. Last year, over 40,000 children attended a panoply of concerts that were presented in the spring and fall. IA *Pacific* Life was also the exclusive sponsor of the Krieghoff exhibition entitled "Images of Canada" that was presented at the Vancouver Art Gallery.

Volunteerism

Many Group employees and managers are keenly aware of their community role and find it important to give personally to the causes they hold dear to their hearts. This commitment is displayed in a number of ways. Some are board members of community organizations, hospital or university foundations while others are members of organizing committees for various fundraisers. Still others collect money or actively participate in walks, relay races, obstacle courses and many other activities in order to raise money for charity groups or community organizations that serve warm meals to the elderly and the handicapped.

Through an internal financial support program, Group companies actively encourage all employee initiatives and volunteer activities that are aimed at collecting donations from colleagues for recognized humanitarian organizations.

Commitment that is Seen and Felt

A growing number of Canadian communities are well aware of the high level of social commitment demonstrated by Industrial Alliance Group companies. In Edmonton, National Life received a special mention for its financial contribution to the Stollery Children's Foundation, which helped to build a children's health care centre. In Quebec City, Industrial Alliance was awarded the highest distinction awarded by the United Way for a second consecutive year: a Platinum certificate underlining the participation of more than 600 employees in the 2001 campaign.

Industrial Alliance fully intends to maintain its strong community presence and to continue contributing to its ongoing development in 2002. The Company also plans to pursue its social commitment in all regions of Canada, to continue supporting organizations that provide assistance to the less fortunate members of our society, to go on encouraging research and education and to continue promoting artistic and cultural events.

A Commitment to Quality Client Services

As part of its constant commitment to continue improving the quality of services provided to its clients, Industrial Alliance renewed its pledge of excellence in the area of client services in 2001 and also created an Ombuds Office in order to handle customer relations.

Industrial Alliance is committed to providing personalized client services of the highest quality that are based on the respect of the client, the rapid handling of applications, easy access to essential information and straightforward administrative requirements. Clients were also informed of specific commitments that were made with regards to requests for information, changes in insurance protection, receipts for amounts deposited in retirement savings plans, the payment of retirement or death benefits or the surrender of insurance or annuities contracts. All Company employees, agents and representatives were also asked to adhere to a strict ethical code that respects the confidential nature of all the information they treat.

In 2001, Industrial Alliance also set up an Ombuds Office to handle customer relations. Clients may contact the Ombuds Office if they are dissatisfied with a Company decision or a service, if a mistake was made when processing information or if they wish to lodge a formal complaint. The Compliance Officer will act as an independent internal mediator and promptly examine the complaint with the utmost impartiality in order to propose equitable solutions.

Management's Discussion

and Analysis of Results of Operations and Financial Position

Management's discussion and analysis of results of operations and financial position covers the following elements: funds under management and under administration, premiums, investment and other income, cost of commitments to insureds, net transfer to segregated funds and dividends and experience refunds, commissions and other expenses, income taxes, net income, cash flows and liquidity and cash resources.

1 ○ Funds Under Management and Under Administration

Funds under management and under administration, whether they come from general funds, segregated funds or other funds under management and under administration, are a measure of the Company's growth. This growth is affected by the amount of new sales, retention of policies in force and investment income from assets.

Funds Under Management and Under Administration

As at December 31 (in millions of dollars)

	2001	2000	1999
General Funds Assets	8,886.3	8,571.8	9,652.3
Segregated Funds Assets	4,061.6	5,439.5	3,388.3
Other Assets Under Management/Administration	2,192.7	90.6	6.8
Total Assets Under Management and Under Administration	15,140.6	14,101.9	13,047.4

Note: the data for 2000 and 1999 have been adjusted to conform to the year 2001 presentation.

2001 compared to 2000

Funds under management and under administration increased by 7.4%, from $14.1 billion to $15.1 billion from December 31, 2000 to December 31, 2001. General funds increased by 3.7% and segregated funds decreased by 25.3% during the same period. This significant decrease is explained by the transfer, on July 1, 2001, of the amounts accumulated ($1.6 billion) under the Canadian Medical Association contract (CMA) to MD Life, a new life insurance company in which National Life holds a 45% share. Under an arrangement, National Life continues to provide all administrative services required for the smooth operation of the business related to the CMA contract.

2000 compared to 1999

Funds under management and under administration increased by 8.1%, from $13.0 billion to $14.1 billion from December 31, 1999 to December 31, 2000. General funds decreased by 11.2% and segregated funds increased by 60.5% during the same period. The strong increase in segregated funds is attributable mainly to the transfer of funds from the CMA contract ($1,375 million), held in general funds until then, to segregated funds on March 31, 2000. This transfer also explains the decrease in the general funds. On a comparable basis, excluding the effects of the transfer, general funds assets would have grown by 3.1% and segregated funds by 20.0%.

2 ○ Premiums

The increase in premiums in the last few years results from a sustained growth in sales and a good level of business persistency.

Premiums

Years ended December 31 (in millions of dollars)

	2001	2000	1999
Individual Insurance	658.8	607.8	534.6
Group Insurance	449.8	388.9	330.1
Individual Annuities	529.1	613.8	477.3
Group Pensions	407.0	616.5	636.3
General Insurance	32.3	12.0	30.9
Total Premiums	2,077.0	2,239.0	2,009.2

2001 compared to 2000

Premium income for the year reached $2,077.0 million, $162.0 million lower than in 2000. Premium growth in the insurance sectors was not sufficient enough to make up for the decrease in premiums in the annuities and pension sectors.

Individual Insurance — Premium income totalled $658.8 million for 2001, a $51.0 million (8.4%) increase compared to 2000. This increase is attributable to the sustained growth of new sales for the last several quarters.

Group Insurance — Premium income for this line of business totalled $449.8 million for 2001, an increase of $60.9 million (15.6%) compared to 2000. This increase mainly comes from the sale of major contracts, rate increases that took effect in 2000 and 2001 and a good business persistency rate.

Individual Annuities — Premiums reached $529.1 million in 2001, $84.7 million (13.8%) lower than in 2000. This decrease is directly related to the decrease in deposits made to segregated funds in 2001, a year during which the stock markets were very volatile, with a particularly sharp drop in the third quarter. Also, some $18 million in unexpected deposits were collected in 2000 as part of the Company's demutualization.

Group Pensions — Premium income in this sector reached $407.0 million in 2001, a decrease of $209.5 million (34.0%) compared to 2000. This decrease is mainly attributable to the fact that the Canadian Medical Association funds were transferred to MD Life on July 1, 2001 and as of that date, no new premiums are entered in National Life's books. Also, a not insignificant portion of premiums in 2000 were attributable to the non-recurrent premiums received from demutualization. Finally, we must underline the excellent performance with respect to sales of insured annuities contracts in 2001, with growth of $117.4 million, more than double the 2000 amount.

2000 compared to 1999

Premium income for 2000 reached $2,239.0 million in 2000, a $229.8 million increase (11.4%) compared to 1999, fuelled primarily by sales in the Individual Annuities sector.

Individual Insurance — Premium income totalled $607.8 million for 2000, an increase of $73.2 million (13.7%) compared to 1999. This increase is attributable to an excellent performance in terms of new sales and a good business persistency rate.

Group Insurance — Premium income totalled $388.9 million for 2000, an increase of $58.8 million (17.8%) over 1999. Rate increases and the development of the creditor insurance sector contributed to this result.

Individual Annuities — Premium income totalled $613.8 million for 2000, $136.5 million (28.6%) higher than in 1999. These results are attributable to the excellent sales performance for the first nine months of the year compared to a rather disappointing performance in 1999, the result of the depressed market conditions that prevailed at that time.

Group Pensions — Premium income in this line totalled $616.5 million, a decrease of $19.8 million (3.1%) compared to 1999. This decrease is mainly due to the interruption of government assistance programs for older workers (POWA), which generated almost $61 million in premiums in 1999. Moreover, to alleviate the impact of new insured annuities contracts on the operating results and improve the return, a portion of these contracts is now reinsured. In 2000, $54.5 million of premiums were reinsured so that, on a gross premiums basis, premium income reached $671.0 million, compared to $636.3 million in 1999.

3 ○ Investment and Other Income

Investment income includes a portion of the changes in value in certain investments and a portion of gains and losses resulting from disposition of investments, interest and dividend income, as well as real estate net rental income.

Investment and Other Income

Years ended December 31 (in millions of dollars)

	2001	2000	1999
Investment Income	542.3	599.2	743.2
Other Income	93.6	88.1	68.0
Total	635.9	687.3	811.2

2001 compared to 2000

Investment income reached $542.3 million for 2001, a $56.9 million decrease compared to 2000. The decrease since the beginning of the year is offset by a reduction in actuarial liabilities ($30.3 million) since the contract holders assume the investment risks of certain universal contracts. Also, a portion of the decrease ($20 million) is attributable to the transfer of the CMA contract. The amounts held under this contract ($1,375 million) generated income in the first quarter of the previous year before being transferred to National Life's segregated funds on March 31, 2000. Considering these items, the net decrease in investment income that is attributable to the market conditions is $6.6 million for 2001 compared to 2000.

Other income increased by $5.5 million in 2001, due to the increase in management fees related to the growth of segregated funds assets and assets of funds under management and under administration.

The overall quality of the asset portfolio remained excellent in spite of the deterioration of the North American economy. Excluding insured mortgage loans, impaired assets represented 0.28% of investments as at December 31, 2001, compared with 0.26% as at December 31, 2000.

2000 compared to 1999

Investment income reached $599.2 million for 2000, which is $144.0 million less than in 1999. This decrease is primarily due to the reduction of general funds assets following the transfer of funds from the CMA contract. This $1,375 million transfer took place on March 31, 2000. This transfer resulted in an increase in other income from segregated fund management fees.

The overall quality of the asset portfolio remained excellent. Excluding insured mortgage loans, impaired assets represented 0.26% of investments as at December 31, 2000, the same level as at December 31, 1999.

4 ○ Cost of Commitments to Insureds, Net Transfer to Segregated Funds and Dividends and Experience Refunds

The cost of commitments to insureds includes the increase in provisions for future policy benefits, claims incurred (death, disability, contract termination and health benefits and annuity payments) and interest on amounts on deposit.

The increase in provisions for future policy benefits is greatly influenced by the level of premiums (which increases the provisions for future policy benefits), claims incurred (which decreases the provisions for future policy benefits) and net transfers to segregated funds (which decreases the provisions for future policy benefits). Each year, the Company updates the assumptions used to calculate the provisions for future policy benefits for each business line. These updates can have an effect on several assumptions, including interest rates, mortality, disability and termination of contracts.

Cost of Commitments to Insureds, Net Transfer to Segregated Funds, Dividends and Experience Refunds

Years ended December 31 (in millions of dollars)

	2001	2000	1999
Cost of Commitments to Insureds	1,375.3	(19.8)	1,676.2
Net Transfer to Segregated Funds	652.8	2,294.9	527.2
Dividends and Experience Refunds	5.0	27.2	39.8
Total	2,033.1	2,302.3	2,243.2

2001 compared to 2000

The cost of commitments to insureds, net transfer to segregated funds and dividends and refunds reached $2,033.1 million for 2001, a $269.2 million (11.7%) decrease compared to 2000. The $1,642.1 million decrease in the net transfer to segregated funds is primarily attributable to the fact that the $261.4 million in deposits from the CMA contract are no longer accounted in National Life's segregated funds since the transfer to MD Life on July 1, 2001, and the fact that $1,375 million was transferred from National Life's general funds to its segregated funds on March 31, 2000, resulting in an equivalent reduction in the cost of commitments to insureds. The $22.2 million decrease in dividends and experience refunds is mainly explained by the transfer of the CMA contract ($5.9 million) and the unfavourable experience of a large group insurance contract for which the accumulated amounts on deposit were used to reduce the dividends and experience refunds.

2000 compared to 1999

The cost of commitments to insureds, net transfer to segregated funds and dividends and experience refunds increased by $59.1 million in 2000 due to the normal growth of business. The total of the items was $2.3 billion in 2000 compared to $2.2 billion in 1999. The operations for the year were affected by the marked growth in net transfers to segregated funds and the major decrease in the cost of commitments to insureds. This situation, which affects dividends and experience refunds, is mainly due to the transfer of CMA funds ($1,375 million) to National Life's segregated funds on March 31, 2000.

The reduction in the tax rates over the next few years, announced by the federal and Ontario governments, were taken into account in the fourth quarter. The result is a $10.3 million adjustment to actuarial liabilities for the year. This adjustment reduces the positive impact on the decrease in tax rates on future income taxes by $16.3 million.

5 ○ Commissions and Other Expenses

Commissions represent agents' compensation on new business and certain in-force contracts. Premium taxes represent the amounts of taxes to be remitted based on the premiums of the insurance sectors under the applicable tax laws. General expenses represent the various expenses related to the operations of the Company and its subsidiaries, such as employees compensation.

Commissions and Other Expenses

Years ended December 31 (in millions of dollars)

	2001	2000	1999
Commissions	260.4	244.9	226.6
Premium Taxes	27.5	22.6	20.6
General Expenses	212.0	205.4	189.9
Net Financing Expenses	14.6	15.1	16.6
Total	514.5	488.0	453.7

2001 compared to 2000

Commissions and other expenses reached $514.5 million in 2001, an increase of $26.5 million (5.4%) over 2000. The increase in commissions is primarily due to the growth of sales while the increase in general expenses results primarily from steady growth of business.

2000 compared to 1999

Commissions and other expenses increased by $34.3 million in 2000, from $453.7 million in 1999 to $488.0 million in 2000. The increase in commissions is mainly linked to the growth of sales in 2000 compared to 1999. The increase in general expenses is due to steady growth of business, the application of new accounting standards for employee future benefits and the growth of costs of public plans for employers. Also, in 2000 and 1999, the expenses related to the demutualization process were entered separately in order to be charged directly to policyowners' equity. For 2000, net financing expenses were lower than in 1999, due to the negotiations with respect to certain sources of financing in 1999.

6 ○ Income Taxes

The Company accounts for its income taxes using the future income taxes method. Under this method, current income taxes and taxes payable at a later date on the income for the year are applied as an expense for the period. Also, the tax on capital of financial institutions, large corporations tax and investment income taxes are posted to the operations for the period. Hence, the income taxes reported in the statements of income reflect a tax charge whose real rate differs from the federal and provincial rates provided for by legislation.

Income Taxes

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

	2001		2000		1999	
Net Income	106.6		100.8		83.4	
Income Taxes	55.3		32.3		37.3	
Income Before Income Taxes	161.9		133.1		120.7	
Provision Based on the Combined Rate	61.2	37.8%	51.9	39.0%	49.0	40.6%
Future Income Taxes	18.4		2.2		4.7	
Income Tax Payable	36.9		30.1		32.6	
Income Taxes and Effective Rate	55.3	34.2%	32.3	24.3%	37.3	30.9%

2001 compared to 2000

The total income tax expense for 2001 is $55.3 million, $23.0 million higher than the previous year. This variation is primarily due to the growth of income before income taxes ($11.2 million), a non-recurrent reduction of $16.3 million in 2000, resulting from the reductions in the tax rates announced the same year, and a $4.5 million increase in the tax on capital, which reflects the strategy followed by the Company.

2000 compared to 1999

The income tax expense for 2000 reached $32.3 million, $5.0 million lower than in 1999. Even though the pre-tax earnings grew $12.4 million compared to 1999, leading to an increase in the income tax expense, this expense was more than offset by the $16.3 million non-recurrent reduction of future income taxes resulting from a reduction in the tax rates by the federal and Ontario governments starting in 2001. Also, the reduction of capital gains inclusion rates and the realization of a $2.1 million tax advantage related to capital losses already realized, contributed to the $5.0 million net decrease in the income tax expense for the period.

7 ○ Net Income

Net income represents the difference between the total revenues for the period and the total expenses, including income taxes, for this same period.

Net Income

Years ended December 31 (in millions of dollars)

	2001	2000	1999[1]
Income Attributable to Participating Policies	2.7	2.7	7.0
Income Attributable to the Shareholders	103.9	98.1	75.0
Net Income	106.6	100.8	82.0
Return on Common Shareholders' Equity	14.0%	14.0%	12.1%

1 The 1999 pro forma data were readjusted on a capital stock company basis considering a charge to manage the share ownership and separating the share of the income attributable to participating policies from that which would have otherwise been attributable to the shareholders.

2001 compared to 2000

The net income for 2001 reached $106.6 million compared to $100.8 million for 2000. This represents a 5.8% increase over 2000 and 12.4% if we exclude the $6 million unusual gain in 2000. This growth in income is mainly attributable to the Group Insurance sector, whose income was $11.9 million in 2001 compared to $3.0 million in 2000, resulting from an excellent death and disability experience. The Individual Insurance sector also had a good year, which is translated by a 2.3% increase in earnings. The results were a little different for the annuity sectors. Individual Annuities had a challenging year, a direct consequence of the stock market downturn and the economic slowdown. Hence, this sector's revenues decreased by 11.5% and the income decreased by 16.3%. In Group Pensions, the year was marked by the transfer of a large contract to a satellite company, which considerably reduced premium income in this sector. However, an exceptional year in insured annuities offset this reduction, so that income for this sector held steady compared to the previous year. All in all, the decrease in revenues was more than offset by a favourable claims experience and good control of expenses.

2000 compared to 1999

Net income for 2000 reached $100.8 million compared to $83.4 million in 1999. Excluding the $6.0 million favourable net effect on income taxes and the variations in the provisions for future policy benefits resulting from the announced rate reductions, the net income for 2000 grew 23.6% compared to 1999, after excluding the $5.3 million net unusual gain and share ownership expenses estimated at $1.4 million. This increase in income is the result of the combined effects of the regular growth of sales at the Company, the favourable claims experience, the revision of rate bases in Group Insurance and the control of the level of operating costs.

Factors that negatively affected net income for the period include the changes made to the accounting standards with respect to employee benefits, as well as to retirement plans, which led to increased expenses. Also, a substantial increase of individual insurance sales that resulted in increased strain associated with new contracts, which should translate into net income in future years, as the provisions for adverse deviations incorporated in the actuarial reserves are no longer required.

8 ○ Cash Flows

A life insurer's financial position changes with variations in fund entries and disbursements. The main sources of funds are premiums collected under insurance policies and annuity policies in force, proceeds from 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, net transfer from the general fund to segregated funds, payment of dividends to policyowners and payment of operating expenses, including taxes and income taxes. The following table summarizes the changes in the Company's consolidated cash flows.

Cash Flows

Years ended December 31 (in millions of dollars)

	2001	2000	1999
Cash Flows Related to the Following Activities:			
• Operating	244.1	77.4	342.3
• Investment	(207.2)	(92.1)	(506.2)
• Financing	(9.7)	26.1	154.9
Increase (decrease) in Cash and Cash Equivalents	27.2	11.4	(9.0)
Cash and Cash Equivalents at the Beginning of the Period	331.1	319.7	328.7
Cash and Cash Equivalents at the end of the Period	358.3	331.1	319.7

2001 compared to 2000

Cash flows related to operating activities for the year ended December 31, 2001 were $166.7 million higher than in 2000. This difference principally reflects the reduced popularity of segregated funds, so that net transfers from general funds to segregated funds were much lower in 2001 than in 2000. Investment operations are $115.1 million higher than in 2001. This situation is attributable to various elements: on the one hand, liquidity from operating activities was higher in 2001 than in 2000. Other than the normal investment activities, certain transactions were recorded in our investment operations: the acquisition of Aegis and Sascar, an investment in a satellite company held jointly with MD Management and the transfer of a business block to this new satellite company. Also, $43 million in real estate investments have been made since the beginning of the year.

The financing activities for 2001 led to a net fund outflow of $9.7 million in 2001, compared to a net fund entry of $26.1 million in 2000. The 2001 activities are summarized by a net inflow of mortgage loans of $10.7 million, the payment of $23.2 million in dividends to the shareholders and the issuance of capital stock for $2.8 million related to the Aegis and Sascar acquisition. The corresponding period of 2000 was characterized by the Company's demutualization and its initial public offering.

2000 compared to 1999

Operating activities for 2000 reflected a net cash inflow of $77.4 million, compared with $342.3 million in 1999. This decrease mainly reflects the impact that the addition of Seaboard Life's operations had on the reserve variations and the clientele's interest in variable income products (segregated funds), so that a greater portion of premiums in the annuities sector were invested in the Company's segregated funds rather than the general funds.

For investment operations, net cash outflow of $92.1 million in 2000 was much lower than the net outflow of $506.2 million in 1999. The significant cash outflow results from the acquisition of Seaboard Life in 1999, which translated by the payment of the purchase price and the inclusion of investment securities resulting from this purchase.

The financing activities for 2000 were characterized by the completion of the conversion process to a stock company, including an initial public offering. The result of this initial public offering was a fund inflow of $379.2 million before commissions. At the same time, an amount of $343.4 million was paid to the policyowners as benefits of demutualization. For the same period in 1999, the net inflow of $154.9 million resulted principally from the issue of a $75 million subordinated debenture and $75 million of preferred equity securities.

9 ○ Liquidity and Cash Resources

As at December 31, 2001, the Company had operating lines of credit totalling $80.0 million ($80.5 million as at December 31, 2000). As at December 31, 2001 and 2000, none of these lines of credit were used. The purpose of these lines of credit is to facilitate the financing of the Company's operations and to meet its temporary working capital requirements.

In February 2000, the Company proceeded with its initial public offering and issued for a total amount of $379.2 million of shares from the Company's treasury. This issue aimed to generate the funds required to remit to the policyowners their share of the benefits of demutualization ($343.4 million) in the form of a cash amount. In February 1999, the Company issued a $75 million subordinated debenture and $75 million of participating preferred securities. These issues were aimed to increase the available capital.

Consolidated
Financial Statements

MANAGEMENT'S REPORT

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 in Canada and, in certain cases, contain amounts based on best judgement and estimates. The financial information presented elsewhere in this annual 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 Appointed Actuary is appointed by the Board of Directors in accordance with *An Act respecting insurance* (Quebec), and is responsible for valuation of actuarial liabilities in accordance with the standards of practice of the Canadian Institute of Actuaries. Moreover, independent auditors appointed by the shareholders 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,

Yvon Charest

President and Chief Executive Officer

Québec, February 12, 2002

Consolidated
Income Statements

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

	2001	2000
REVENUES		
Insurance and annuity premiums (note 4)	$ 2,077.0	$ 2,239.0
Investment income (note 5)	542.3	599.2
Fees and other income	93.6	88.1
	2,712.9	2,926.3
OPERATING EXPENSES		
Increase (decrease) in provisions for future policy benefits	233.5	(1,228.7)
Claims incurred	1,138.3	1,200.9
Net transfer to segregated funds	652.8	2,294.9
Dividends and experience refunds	5.0	27.2
Interest on amounts on deposit	3.5	8.0
Commissions	260.4	244.9
Premium taxes	27.5	22.6
General expenses	212.0	205.4
Net financing expenses	14.6	15.1
	2,547.6	2,790.3
INCOME BEFORE INCOME TAXES AND GOODWILL EXPENSE	165.3	136.0
Income taxes (note 6)	(55.3)	(32.3)
INCOME BEFORE GOODWILL EXPENSE	110.0	103.7
Goodwill expense	3.4	2.9
NET INCOME	$ 106.6	$ 100.8
Net income attributable to shareholders	$ 103.9	$ 98.1
Net income attributable to shareholders excluding unusual items (note 3)	$ 103.9	$ 92.1
Net income attributable to participating policies	$ 2.7	$ 2.7
Earnings per share (note 24)		
Basic and diluted (in dollars)	$ 2.75	$ 2.59
Basic and diluted excluding unusual items (in dollars)	$ 2.75	$ 2.43

Consolidated
Balance Sheets

As at December 31 (in millions of dollars)

	2001	2000
ASSETS		
Investments		
Bonds (notes 8 and 10)	$ 4,193.2	$ 3,874.5
Stocks and market indices (note 8)	703.2	707.9
Mortgage loans (notes 8 and 11)	2,660.4	2,729.6
Real estate (notes 8 and 12)	424.9	392.3
Policy loans (note 8)	147.5	137.5
Short-term investments and cash (note 8)	362.9	353.9
Significantly influent entity (note 8)	6.7	—
Investment fund (notes 8 and 13)	71.9	65.2
	8,570.7	8,260.9
Other assets		
Investment income receivable	65.7	71.0
Fixed assets (note 14)	42.9	35.3
Amounts receivable	132.7	129.1
Goodwill	49.4	49.6
Miscellaneous (note 15)	24.9	25.9
	315.6	310.9
GENERAL FUNDS ASSETS	$ 8,886.3	$ 8,571.8
SEGREGATED FUNDS ASSETS	$ 4,061.6	$ 5,439.5

ON BEHALF OF THE BOARD,

Yvon Charest, Director
Michel Gervais, Director

...Performance

As at December 31 (in millions of dollars)

	2001	2000
LIABILITIES		
Actuarial liabilities (note 16)		
Provisions for future policy benefits	$ 6,734.1	$ 6,474.0
Provisions for dividends to policyowners and experience refunds	13.4	31.6
Provisions for policy benefits in process of payment	107.0	85.7
Premiums paid in advance and amounts on deposit	167.0	188.7
	7,021.5	6,780.0
Other liabilities		
Unearned premiums	22.5	13.8
Other contractual liabilities	8.7	8.9
Mortgage debt (note 17)	47.9	37.2
Accounts payable (note 18)	177.2	186.8
Future income tax liability (note 6)	133.8	114.5
Bank overdraft	4.6	22.8
Miscellaneous	49.0	28.9
	443.7	412.9
Deferred credits (note 19)	317.9	364.7
Subordinated debentures (note 20)	185.0	185.0
Participating policyowners' account (note 21)	53.4	50.7
EQUITY		
Currency translation account	10.2	7.4
Capital-stock (note 23)	457.2	454.4
Shares held in treasury (note 23)	(0.2)	(0.2)
Retained earnings (note 7)	397.6	316.9
	864.8	778.5
GENERAL FUNDS LIABILITIES AND EQUITY	$ 8,886.3	$ 8,571.8
SEGREGATED FUNDS LIABILITIES	$ 4,061.6	$ 5,439.5

Consolidated

Statements of Equity

Years ended December 31 (in millions of dollars)

	2001	2000
PREFERRED EQUITY SECURITIES (note 22)	$ —	$ 75.0
Conversion into preferred shares	—	(75.0)
	—	—
POLICYOWNER'S EQUITY		
Surplus at beginning	—	647.8
Charges in relation to the conversion	—	(14.0)
Reclassification to the participating policyowners' account	—	(42.1)
Adjustment for the employees future benefit	—	(21.3)
Transfer to common shareholders	—	(570.4)
Surplus at end	—	—
Currency translation account	—	5.1
Transfer to equity	—	(5.1)
	—	—
	$ —	$ —
EQUITY		
Currency translation account	$ 10.2	$ 7.4
Capital-stock		
Preferred shares	75.0	75.0
Common shares	382.2	379.4
Shares held in treasury	(0.2)	(0.2)
Retained earnings		
Retained earnings at beginning	316.9	—
Transfer from policyowners' equity	—	225.2
Net income attributable to shareholders	103.9	98.1
Dividends	(23.2)	(6.4)
Retained earnings at end	397.6	316.9
	$ 864.8	$ 778.5

Consolidated

Cash Flows Statements

Years ended December 31 (in millions of dollars)

	2001	2000
CASH FLOW RELATED TO THE FOLLOWING ACTIVITIES:		
Operating		
Net income	$ 106.6	$ 100.8
Items not affecting cash and cash equivalents:		
Increase in policy liabilities	234.3	50.6
Share of net income of significantly influent entity	1.4	—
Net amortization of realized and unrealized gains and premiums/discount on investment	(98.3)	(126.5)
Future income taxes	18.5	(5.3)
Other	23.7	17.4
	286.2	37.0
Changes in non-cash operating working capital items	(42.1)	40.4
	244.1	77.4
Investing		
Transfer of business to an affiliated company	(32.3)	—
Acquisition of ownership interest	(21.9)	(10.5)
Cash and short-term of acquired business	16.3	2.8
Net acquisition of bonds	(198.5)	(53.9)
Net acquisition of stocks and market indices	(1.5)	(73.1)
Net decrease of mortgage loans	79.1	62.3
Net increase of real estate and fixed assets	(42.6)	(5.1)
Net increase of policy loans	(5.8)	(14.6)
	(207.2)	(92.1)
Financing		
Issue of capital-stock	2.8	377.4
Dividends	(23.2)	(6.4)
Increase (decrease) in mortgage debt	10.7	(1.5)
Payment to policyholders on demutualization	—	(343.4)
	(9.7)	26.1
Increase in cash and cash equivalents	27.2	11.4
Cash and cash equivalents at beginning	331.1	319.7
Cash and cash equivalents at end	$ 358.3	$ 331.1

In addition to cash and cash equivalents activities, the year 2000 includes a $1,375.2 decrease of investments resulting from the transfer, to segregated funds of the company, of the accumulated amount related to the Canadian Medical Association contract.

Cash and cash equivalents are made up of short-term investments and cash less bank overdraft.

Consolidated

Statements of Segregated Funds

As at December 31 (in millions of dollars)

	2001	2000
CONSOLIDATED STATEMENTS OF NET ASSETS		
Assets		
Stocks	$ 1,231.7	$ 1,384.7
Bonds	1,215.9	1,822.8
Mutual funds	1,241.7	1,198.5
Mortgage loans and securities	65.4	741.0
Short-term investments and cash	285.4	258.7
Accounts receivable	6.4	3.5
Investment income due and accrued	15.1	30.3
	4,061.6	5,439.5
Liabilities		
Accounts payable	12.0	6.7
Net assets	$ 4,049.6	$ 5,432.8

Years ended December 31 (in millions of dollars)

	2001	2000
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS		
Net assets at beginning	$ 5,432.8	$ 3,382.3
Amounts received from policyholders	732.6	868.6
Amounts received from a major contract	123.6	1,636.1
Decrease resulting from business transfer to a significantly influent entity	(1,557.1)	—
Investment income	179.9	200.4
Net gain upon realization of investments	19.9	211.9
Unrealized capital loss for the period	(173.2)	(63.8)
	4,758.5	6,235.5
Amounts withdrawn by policyholders	624.0	717.9
Operating expenses	84.9	84.8
	708.9	802.7
Net assets at end	$ 4,049.6	$ 5,432.8

Notes
to Consolidated Financial Statements

Years ended December 31, 2001 and 2000 (in millions of dollars)

1 ○ Status and nature of activities

The company, a life insurance company incorporated under *An Act respecting insurance* (Quebec), constitutes, with its subsidiaries, a group of companies (the "Group") engaged mainly in the development, marketing and distribution of insurance and annuity products. The operations of the life and health insurance lines of business extend throughout Canada, and certain regions in the western United States, while the general insurance operations are concentrated in Quebec.

On February 10, 2000, the company obtained letters patent of conversion changing its status as a mutual insurance company to that of a capital-stock insurance company and completed an initial public offering.

2 ○ Accounting policies

The consolidated financial statements are prepared in accordance with Canadian 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 the subsidiaries are consolidated;
- the accounts of the joint ventures are consolidated on a proportionate basis.
- the investment in a significantly influent entity, MD Life, for 45% of the share capital, is presented at the equity value.

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 asset 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 16 below, the Company takes into account the level of matching achieved 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 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 period.

Stocks and market indices

Stocks and market indices held in the life insurance companies' portfolios include 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 declining 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.

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 declining balance method at the annual rate of 10%.

Real estate held for sale is recorded at the lower of the 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.

Real estate held for sale by other companies in the Group is recorded at cost.

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 arising from decline in value and investment securities used as the main basis to calculate variable interest on the subordinated debenture of $60.0. 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 purposes 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. For acquisitions completed prior to July 1, 2001, goodwill is amortized using the straight-line method over periods not exceeding 20 years. For acquisitions completed after June 30, 2001, goodwill is carried at the amount initially recognized, less any write down for impairment. The fair value of goodwill assigned to each reporting unit is valued at least annually. Goodwill is written down to its fair value when there has been a permanent decline in value based on forecast investment returns.

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 policyholders. The total value of these additional assets, managed by the Company but not included in the general fund, is recorded 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 Canadian Asset Liability Method (CALM).

These provisions are calculated based on assumptions that are regularly tested and, if need be, modified to reflect changes in plan experience.

Contingent liabilities

In connection with its operations, the Company is, from time to time, named as defendant in actions for damages and costs allegedly sustained by plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, the Company does not believe that it will incur any material loss or expense in connection with such actions and the latter are taken into account at the conclusion of the concerned cases.

Income taxes

The Company uses the future income taxes method according to which the income taxes related to its operations are entered during the year in which these operations were recorded for accounting purposes, regardless of when they are taken into account for tax purposes. The tax rate used to evaluate the future income tax asset or liability corresponds to the rate announced on the balance sheet dates.

Years ended December 31, 2001 and 2000 (in millions of dollars)

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.

Foreign currencies

Assets and liabilities denominated in foreign currency are translated into Canadian dollars at the period-end exchange rate while revenues and expenses are translated at the rate of exchange in effect on the dates when they occur. Gains and losses resulting from translation of balance sheet items related to activities maintained outside Canada are recorded in the Currency translation account, a component of equity, whereas those related to operations are included in the statement of income.

Insurance and annuity premiums

Insurance and annuity premiums are made up of the total amounts received as premiums on contracts in force less the share ceded to reinsurers for insuring a part of the risk.

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 funds to segregated funds less the total amount transferred from the segregated funds to the general funds.

Employee future benefits

The cost of the employee future benefits is determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. The discount rate used to determine the accrued benefit obligation refers to market interest rates at the measurement date on high quality debt instruments with cash flows that match the expected benefit payments. The excess of net actuarial gain or loss over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the remaining service life of active employees.

Earnings per share

Effective January 1, 2001, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) concerning earnings per share. Under the revised standard, the treasury stock method is used instead of the imputed earnings approach for determining the dilutive effect of stock options. The matching of the numerators and denominators used in computing basic and diluted earnings per share are presented in accordance with the new standard.

The change in the method of calculating earnings per share had no impact on the diluted earnings per share for the year 2000.

3 ○ Unusual items

The data of 2000 are affected by a non recurrent event giving rise to unusual income.

In 2000, the federal and Ontario governments announced tax rate reductions for corporations spread out until 2004, resulting in the following impacts on the financial statements: a $10.3 increase in the provisions for future policy benefits and a $16.3 decrease in the future income tax liability creating additional income of $6.0.

4 ○ Insurance and annuity premiums

	2001	2000
Total premiums		
Insurance	$ 1,108.6	$ 996.7
Annuities		
Invested in general funds	363.3	536.8
Invested in segregated funds	572.8	693.5
General insurance	32.3	12.0
	$ 2,077.0	$ 2,239.0

Years ended December 31, 2001 and 2000 (in millions of dollars)

5 ○ Investment income

	2001	2000
Bonds	$ 302.4	$ 298.1
Mortgage loans	200.5	220.6
Real estate	26.0	25.6
Stocks and market indices	17.5	17.1
Short-term investments	14.1	23.0
Decrease in market value	(59.6)	(25.6)
Amortization of deferred gains	39.5	46.0
Other	18.4	12.1
	558.8	616.9
Provision for credit losses	(2.2)	(2.2)
Investment charges	(14.3)	(15.5)
	$ 542.3	$ 599.2

6 ○ Income taxes

	2001	2000
Income taxes reflect a different effective tax rate than the combined federal and provincial tax rate due to the following items:		
Provision based on the combined rate	$ 61.2	$ 51.9
Non-taxable income	(15.4)	(18.1)
Rate reduction	(3.2)	(16.3)
Tax benefit on loss already sustained	—	(2.1)
Investment income tax	9.0	8.7
Large corporations and financial institutions taxes	3.7	8.2
	$ 55.3	$ 32.3
Total taxes charged to operations are divided as follows:		
Future income taxes	$ 18.4	$ 2.2
Income taxes payable	36.9	30.1
	$ 55.3	$ 32.3
The future tax liability presented on the balance sheet is related to the temporary differences on the following principal items:		
Actuarial liabilities	$ 126.1	$ 111.6
Real estate	43.1	25.2
Other	(35.4)	(22.3)
	$ 133.8	$ 114.5

Years ended December 31, 2001 and 2000 (in millions of dollars)

7 ○ Retained earnings

To conform to Quebec statutory requirements with respect to provisions for future policy benefits, an amount of $162.3 of the retained earnings is appropriated ($147.0 as at December 31, 2000).

8 ○ Investments

	2001	2000
Book value		
Bonds	$ 4,193.2	$ 3,874.5
Stocks and market indices	703.2	707.9
Mortgage loans	2,660.4	2,729.6
Real estate held for investment	411.3	377.2
Real estate held for sale	13.6	15.1
Policy loans	147.5	137.5
Short-term investments and cash	362.9	353.9
Significantly influent entity	6.7	—
Investment fund	71.9	65.2
	$ 8,570.7	$ 8,260.9
Market value		
Bonds	$ 4,691.6	$ 4,383.9
Stocks and market indices	690.7	722.6
Mortgage loans	2,750.6	2,760.7
Real estate held for investment	435.9	399.7
Real estate held for sale	15.9	16.4
Policy loans	147.5	137.5
Short-term investments and cash	362.9	353.9
Significantly influent entity	6.7	—
Investment fund	71.9	65.2
	$ 9,173.7	$ 8,839.9

Years ended December 31, 2001 and 2000 (in millions of dollars)

9 ○ Impaired investments and provisions for credit losses

Impaired investments

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 impaired investments. These investments, net of related provisions, are as follows:

	2001	2000
Bonds	$ 1.4	$ —
Conventional mortgage loans	9.1	1.8
Real estate held for sale	13.6	19.6
	$ 24.1	$ 21.4

Provision for credit losses

Total provisions, including impairments in value of restructured loans, are as follows:

	2001	2000
Bonds	$ 2.8	$ 1.3
Conventional mortgage loans	2.2	2.2
Real estate held for sale	6.1	6.4
Other	4.3	4.4
	$ 15.4	$ 14.3

10 ○ Bonds

Breakdown of bonds by credit rating and category of issuer:

	2001	2000
Credit rating		
A and higher	$ 3,830.4	$ 3,586.3
BBB	361.4	279.5
BB and lower	1.4	8.7
	$ 4,193.2	$ 3,874.5
Category of issuer		
Governments or guaranteed by them	$ 2,197.7	$ 2,010.5
Municipalities	50.3	67.2
Corporations	1,945.2	1,796.8
	$ 4,193.2	$ 3,874.5

Years ended December 31, 2001 and 2000 (in millions of dollars)

11 Mortgage loans

Breakdown of mortgage loans by category and type of property:

	2001	2000
Insured mortgages		
Residential	$ 338.1	$ 339.7
Multi-residential	747.9	727.7
Commercial	1.7	4.6
	1,087.7	1,072.0
Conventional mortgages		
Residential	159.2	178.7
Multi-residential	618.1	628.1
Commercial	795.4	850.8
	1,572.7	1,657.6
	$ 2,660.4	$ 2,729.6

12 Real estate

Breakdown of real estate by category and type of property:

	2001	2000
Real estate held for investment		
Office	$ 285.6	$ 252.1
Retail	91.8	91.0
Residential	7.8	7.6
Industrial	12.4	12.6
Land	13.7	13.9
	411.3	377.2
Real estate held for sale		
Residential	0.4	0.4
Multi-residential	5.2	5.2
Commercial	8.0	9.5
	13.6	15.1
	$ 424.9	$ 392.3

13 Investment fund

	2001	2000
Investment securities (at market value)	$ 71.5	$ 64.8
Receivable and accrued revenue	0.4	0.4
	$ 71.9	$ 65.2

Years ended December 31, 2001 and 2000 (in millions of dollars)

14 ○ Fixed assets

	Cost	Accumulated depreciation	Net Value As at December 31	
	2001	2001	2001	2000
Leasehold improvements	$ 40.3	$ 24.3	$ 16.0	$ 14.2
Furniture and equipment	67.3	40.4	26.9	21.1
	$ 107.6	$ 64.7	$ 42.9	$ 35.3

15 ○ Miscellaneous assets

	2001	2000
Deferred expenses	$ 10.1	$ 5.9
Deferred pension costs	12.3	13.1
Other	2.5	6.9
	$ 24.9	$ 25.9

16 ○ 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:

December 31, 2001

	Individual		Group			
Actuarial liabilities	Life & Health	Annuities	Life & Health	Pensions	Other	Total
Canada	$ 2,678.9	$1,472.6	$ 684.9	$ 1,787.9	$ 0.2	$ 6,624.5
Outside Canada	157.4	239.0	0.3	0.3	—	397.0
Total	$ 2,836.3	$1,711.6	$ 685.2	$ 1,788.2	$ 0.2	$ 7,021.5
Assets backing liabilities						
Bonds and other fixed-interest securities	$ 1,873.9	$ 534.0	$ 333.8	$ 1,038.7	$ 0.2	$ 3,780.6
Mortgages	420.7	1,074.5	303.7	567.0	—	2,365.9
Stocks and market indices	368.7	22.3	41.4	34.0	—	466.4
Real estate	59.0	19.4	—	127.9	—	206.3
Policy loans	99.9	45.6	—	0.1	—	145.6
Other	14.1	15.8	6.3	20.5	—	56.7
Total	$ 2,836.3	$1,711.6	$ 685.2	$ 1,788.2	$ 0.2	$ 7,021.5

Years ended December 31, 2001 and 2000 (in millions of dollars)

16 Actuarial liabilities (continued)

December 31, 2000

	Individual		Group			
Actuarial liabilities	Life & Health	Annuities	Life & Health	Pensions	Other	Total
Canada	$ 2,450.7	$1,557.1	$ 644.6	$1,768.1	$ —	$ 6,420.5
Out of Canada	137.9	221.2	0.1	0.3	—	359.5
Total	$ 2,588.6	$1,778.3	$ 644.7	$1,768.4	$ —	$ 6,780.0
Assets backing liabilities						
Bonds and other fixed-interest securities	$ 1,637.5	$ 584.1	$ 288.9	$ 969.8	$ —	$ 3,480.3
Mortgages	377.2	1,096.6	310.3	614.3	—	2,398.4
Stocks and market indices	412.8	21.7	40.1	36.4	—	511.0
Real estate	57.9	20.4	—	125.1	—	203.4
Policy loans	87.4	39.0	—	—	—	126.4
Other	15.8	16.5	5.4	22.8	—	60.5
Total	$ 2,588.6	$1,778.3	$ 644.7	$1,768.4	$ —	$ 6,780.0

The market value of assets backing liabilities represents some $7.6 billion as at December 31, 2001 ($7.3 billion as at December 31, 2000). This value cannot be compared to the amount of actuarial liabilities since this amount would also increase if the said actuarial liabilities were evaluated on a market value basis.

Assumptions

Assumptions used in the computation of actuarial liabilities are based on the actuary's best estimate with respect to mortality, morbidity, lapse, investment returns, operating expenses, inflation, dividends to policyowners and income taxes. These assumptions cover the lifetime 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 experience of the last few years.

The assumption used with respect to annuities is based on a combination of the Company's most recent experience and the industry's 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. The cash flows from these assets invested at rates established according to the expected returns from the financial markets and the Company's investment policy are used to estimate future investment income.

The Company's financial position may be affected by the level of interest rates. If the cash flows cannot be invested at a sufficient rate, the Company's future profitability could be affected. If the cash flows resulting from assets supporting the liabilities do not match the timing and amount of the policy obligations, the Company may be obligated to liquidate certain assets.

As is indicated in the Matching of assets to the 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 the liabilities, the difference in duration was 0.05 years at the end of the period which is well within the investment policy of the greater of 0.25 years or 5% of the duration of the block.

Moreover, the calculation of the return on investments was determined by incorporating a credit risk assumption, with respect to assets, which is in line with the Company's recent experience.

Years ended December 31, 2001 and 2000 (in millions of dollars)

16 ○ Actuarial liabilities (continued)

To improve the return on very long-term investments, the Company has chosen to diversify them according to the various asset classes. Also, additional equity will be purchased to back a portion of the long-term actuarial liabilities. Currently, the amount of this equity investment represents 3% of the Company's total actuarial liabilities.

Income taxes

The actuarial liabilities were established to be consistent with the use of the future income taxes method of accounting for income taxes. Accordingly, actuarial liabilities are reduced by an amount of $74.5 ($71.4 as at December 31, 2000) 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 distribution 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.

With respect to lapse-supported products, the lapse assumptions are consistent with the Canadian Institute of Actuaries' minimum standards with respect to this category of policies.

Provision for adverse deviation

A provision for adverse deviation has been added to each of the assumptions to recognize the uncertainty surrounding the establishment of best estimates, to take into account the possible deterioration of the experience and to provide better assurance that the actuarial liabilities will be sufficient enough to pay future benefits.

Reinsurance

In the normal course of business, the Company uses reinsurance to limit its risk on every life insured. For Industrial Alliance, the risk is generally limited to $0.5, National Life to $0.4 ($0.1 for policies issued in 2001) and for Industrial Alliance *Pacific* Life to $0.5 (US$0.3 for US business). The Company also has reinsurance agreements covering the financial losses arising from multiple claims due to catastrophic events affecting several lives insured.

Changes in actuarial liabilities	2001	2000
Balance at beginning	$ 6,780.0	$ 8,014.8
Acquisition of Aegis	6.8	—
Canadian Medical Association transfer	—	(1,375.2)
MD Life transfer	(34.3)	—
Impact of changes in future tax rates	—	10.3
Impact of the changes in assumptions	(0.8)	2.2
Normal changes	251.0	116.7
Foreign currency translation	18,8	11.2
Balance at end	$ 7,021.5	$ 6,780.0

17 ○ Mortgage debt

	2001	2000
Mortgage loans (at various rates up to 11.375%, repayable through 2009)	$ 47.9	$ 37.2

Years ended December 31, 2001 and 2000 (in millions of dollars)

18 Accounts payable

	2001	2000
Reinsurer	$ 5.4	$ 14.3
Agent compensation	21.2	20.8
Administration fees payable	5.4	0.9
Income and premium taxes	28.6	26.7
Withholding taxes and deductions	13.5	17.4
Interest payable	12.8	6.3
Employee future benefits	38.7	38.3
Others	51.6	62.1
	$ 177.2	$ 186.8

19 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 divided as follows:

	2001	2000
Related to actuarial liabilities		
Bonds	$ 250.0	$ 262.7
Stocks and market indices	15.4	18.6
Mortgage loans	7.8	9.5
Real estate	7.2	8.0
	280.4	298.8
Related to equity		
Bonds	21.9	25.6
Stocks and market indices	13.0	37.3
Real estate	2.6	3.0
	37.5	65.9
	$ 317.9	$ 364.7

Years ended December 31, 2001 and 2000 (in millions of dollars, unless otherwise indicated)

20 Subordinated debentures

	2001	2000
Subordinated debenture bearing basic interest of 1.25% 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
Series 2 subordinated debenture, bearing interest of 8.40%, redeemable at the option of the Company since June 2001 or repayable on maturity in 2006.	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	75.0
	$ 185.0	$ 185.0

21 Participating policyowners' account

	2001	2000
Balance at beginning	$ 50.7	$ —
Reclassification to the participating policyowners' account		
From other contractual liabilities	—	5.9
From policyowners' equity	—	42.1
Net income	2.7	2.7
Balance at end	$ 53.4	$ 50.7

22 Preferred equity securities

Preferred equity securities at 25 dollars each, with a non-cumulative dividend of 1% for five years, to be subsequently revised at a rate that will be based on market prices. These securities were converted into series 1 preferred shares at the time of demutualization.

23 Capital-stock

Common shares

100,000,000 common shares without par value, with voting right, issuable at a global value not exceeding one billion dollars.

Preferred shares

10,000,000 preferred shares with a par value of 25 dollars each, without voting right, with a non-cumulative dividend of 1% until 2004, to be subsequently revised at a rate that will be based on market prices, issuable in series with equal ranking as for dividend and capital.

3,000,000 Series 1 preferred shares, redeemable at the issuing value at the Company's option under certain conditions including approval by the Inspector General of Financial Institutions, convertible at the option of the holder over a period of 4 years starting in 2001 in common shares at 95% of the market value of these shares. This conversion option may itself lead to a conversion of the Series 1 preferred shares to Series 2 preferred shares at the Company's option.

3,000,000 Series 2 preferred shares, issuable for the sole purpose of conversion of Series 1 preferred shares, redeemable at the option of the Company at the issuing value increased by a 5.26% premium under certain conditions, including the necessity to proceed to the issue of Series 3 preferred shares.

3,000,000 Series 3 preferred shares, redeemable after 5 years at their issuing value subject to approval by the Inspector General of Financial Institutions or convertible to common shares at their market value.

Years ended December 31, 2001 and 2000 (in millions of dollars, unless otherwise indicated)

23 Capital-stock (continued)

	2001		2000	
	Number of shares (thousands)	Amount	Number of shares (thousands)	Amount
SUBSCRIBED CAPITAL				
Common shares				
Balance at beginning	37,580.8	$ 379.4	—	$ —
Shares issued under the initial public offering	—	—	21,575.0	339.8
Shares issued to the policyowners on demutualization	—	—	13,495.5	—
Shares issued under the over-allotment option	—	—	2,500.0	39.4
Shares issued under Mecagroup acquisition	—	—	10.3	0.2
Shares issued under Aegis/Sascar acquisition	67.4	2.8	—	—
Balance at end	37,648.2	382.2	37,580.8	379.4
Preferred shares				
Series 1 preferred shares, issued as conversion of preferred equity securities	3,000.0	75.0	3,000.0	75.0
Total capital-stock		457.2		454.4
Shares held in treasury				
Balance at beginning	10.8	(0.2)	—	—
Acquisition	—	—	10.8	(0.2)
Balance at end	10.8	(0.2)	10.8	(0.2)
		$ 457.0		$ 454.2

On November 9, 2001, the Company filed a notice of intention to make a normal course issuer bid. As part of this bid, 1.875 million common shares of the Company may be purchased at the market price until November 8, 2002. The common shares thereby purchased will not be cancelled and will remain available for future use.

STOCK BASED COMPENSATION

Stock option plan

At the annual meeting of May 2, 2001, the shareholders approved the Company stock option plan for the directors and senior management of the Company and its subsidiaries, set up on February 10, 2001. The board grants a certain number of common stock options to the senior management, the exercise price of the options, the expiry date and the date on which the options can be exercised.

The exercise price of each option is equal to the average weighted price of the shares traded on the Toronto Stock Exchange during the five days of trading preceding the option grant date. The options are generally valid for 10 years. They can be exercised at the rate of 25% per year for the first four anniversaries of the grant.

A total of 2,630,652 common shares (about 7% of the outstanding common shares) can be granted by the board subject to an agreement of a maximum of 1.4% of the issued and outstanding common shares of the Company, per person eligible for the plan.

Options totalling 495,600 shares were granted on February 10, 2001 to the eligible persons. These shares have an exercise price of $38.11 and expire February 10, 2011.

Years ended December 31, 2001 and 2000 (in millions of dollars, unless otherwise indicated)

23 Capital-stock (continued)

The following table presents the operations on the share purchase plan during the period:

	2001	
	Number of options on common shares (thousand)	Weighted average exercise price (in dollars)
Number at beginning	—	$ —
Allotted	495.6	38.11
Number at end	495.6	$ 38.11
Purchasable at end	—	—

Share purchase plan for employees

The Company adopted a share purchase plan for its employees on February 10, 2001. Under the plan, employees can contribute up to 5% of their salary to a maximum of $1,500 per year. The Company contributes an amount equal to 50% of each employee's contribution. The Company contribution is charged to the statement of operations as a general expense. The shares purchased by the share purchase plan for the employees will have to be kept by the employees for a minimum period of two years before they can be sold.

24 Earnings per share

	2001	2000
Net income attributable to shareholders	$ 103.9	$ 98.1
Less:		
Dividends to preferred shares	0.7	0.7
Net income attributable to common shareholders	103.2	97.4
Less:		
Unusual items	—	6.0
Net income attributable to common shareholders excluding unusual items	$ 103.2	$ 91.4
Earnings per share		
Basic and diluted (in dollars)	$ 2.75	$ 2.59
Basic and diluted excluding unusual items (in dollars)	$ 2.75	$ 2.43

The denominator for basic earnings per share calculations is the weighted daily shares outstanding for the year of 37,471,879 (37,569,891 in 2000). The denominator for diluted earnings per share calculations includes incremental shares of 22,437 related to the options awarded during the period and calculated under the treasury stock method.

Years ended December 31, 2001 and 2000 (in millions of dollars)

25 Acquisition of business

On May 15, 2000, the Company agreed to purchase Mecagroup Inc., one of the main providers of credit insurance to automotive dealers in Quebec. This acquisition had been approved by regulatory authorities and concluded at the amount of $3.0 of which $0.2 was paid by shares of the Company.

On November 30, 2000, the Company acquired 50% of the shares of Unindal Inc. in consideration of $7.5 in cash so that it now holds 100% of the general insurance company.

On June 1, 2001, the Company acquired the assets of Groupe Financier Concorde, a mutual fund dealer, for $0.2 in cash and an amount to be determined in one year based on a percentage of gross commissions.

On July 24, 2001, the Company acquired 100% of the shares of Aegis Insurance Corporation and its affiliated company Sascar Management Ltd, operating in the credit insurance market among automobile dealers, in consideration of $6.6 in cash and $2.8 in Industrial Alliance shares.

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:

	2001		2000	
	Aegis/Sascar	Groupe Financier Concorde	Unindal	Mecagroup
Assets acquired				
Bonds	$ 0.5	$ —	$ 5.5	$ —
Stocks	—	—	0.6	—
Other assets	19.4	0.2	12.4	0.4
	19.9	0.2	18.5	0.4
Liabilities assumed				
Other liabilities	13.5	—	11.0	0.4
Net assets acquired	6.4	0.2	7.5	—
Goodwill	3.0	—	—	3.0
Purchase price	$ 9.4	$ 0.2	$ 7.5	$ 3.0

Years ended December 31, 2001 and 2000 (in millions of dollars)

26 ○ Employee future benefits

The company maintains defined benefit pension plans which provide payment to most of its employees.

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are a discount rate of 6.5%, an expected rate of return on assets of 6.5% and a 3.5% increase in compensation.

	2001		2000	
	Pension plans	Other plans	Pension plans	Other plans
Plan assets				
Assets at beginning (at market value)	$ 226.0	$ —	$ 180.7	$ —
Actual return on assets	2.0	—	43.8	—
Company contributions	5.6	—	6.3	—
Employee contributions	3.6	—	3.9	—
Benefits paid	(9.7)	—	(8.7)	—
Assets at end (at market value)	$ 227.5	$ —	$ 226.0	$ —
Plan obligations				
Accrued obligations at beginning	$ 211.0	$ 18.6	$ 175.8	$ 16.5
Current service cost	6.3	0.8	8.1	1.0
Interest cost	13.7	1.0	11.7	1.1
Employee contributions	3.7	—	3.9	—
Benefits paid	(9.7)	—	(8.7)	—
Actuarial (gains) losses	2.8	(3.3)	20.2	—
Accrued obligations at end	$ 227.8	$ 17.1	$ 211.0	$ 18.6
Plan benefit liability				
Plan surplus (deficit)	$ (0.3)	$ (17.1)	$ 15.0	$ (18.6)
Unamortized net actuarial (gains) losses	(1.7)	(1.8)	(18.1)	0.8
Accrued benefit liability	$ (2.0)	$ (18.9)	$ (3.1)	$ (17.8)
Net benefit plan expense				
The Company's net benefit plan expense is as follows:				
Current service cost	$ 6.3	$ 0.8	$ 8.1	$ 1.0
Interest cost	13.7	1.0	11.7	1.1
Expected return on assets	(14.9)	—	(12.3)	—
Amortization of transitional obligation	(0.4)	—	(0.4)	0.1
Amortized actuarial gains	(0.3)	(0.7)	—	—
Net benefit plan expense	$ 4.4	$ 1.1	$ 7.1	$ 2.2

Years ended December 31, 2001 and 2000 (in millions of dollars)

27 Off-balance sheet financial instruments

The Company is an end user of derivative financial instruments in the normal course of managing exposure to fluctuations in interest rates and market values.

The following table summarizes the Company's derivative portfolio, the fair value and related credit exposure.

	2001			
	Equity contracts	Currency contracts	Interest rate contracts	Total contracts
Notional amount by term to maturity				
Less than 1 year	$ 218.2	$ 49.2	$ 43.0	$ 310.4
1 to 5 years	163.8	51.8	109.4	325.0
Over 5 years	—	18.3	—	18.3
Total	$ 382.0	$ 119.3	$ 152.4	$ 653.7
Fair value	$ 19.1	$ (4.2)	$ (4.3)	$ 10.6
Credit exposure risk				
Maximum credit risk	$ 19.1	$ —	$ —	$ 19.1
Potential future credit exposure	25.7	4.5	0.5	30.7
Credit equivalent amount	$ 44.8	$ 4.5	$ 0.5	$ 49.8

	2000			
	Equity contracts	Currency contracts	Interest rate contracts	Total contracts
Notional amount by term to maturity				
Less than 1 year	$ 233.3	$ 27.0	$ 50.8	$ 311.1
1 to 5 years	33.1	56.0	38.5	127.6
Over 5 years	—	19.7	—	19.7
Total	$ 266.4	$ 102.7	$ 89.3	$ 458.4
Fair value	$ (9.0)	$ (2.5)	$ (1.5)	$ (13.0)
Credit exposure risk				
Maximum credit risk	$ 0.8	$ 0.1	$ —	$ 0.9
Potential future credit exposure	16.6	4.6	0.2	21.4
Credit equivalent amount	$ 17.4	$ 4.7	$ 0.2	$ 22.3

Years ended December 31, 2001 and 2000 (in millions of dollars)

27 ○ Off-balance sheet financial instruments (continued)

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, should the counterparty default. Potential future credit exposure quantifies the potential for future losses which may result from future movement in market rates. The Company's exposure at each balance sheet date is limited to the risk that a counterparty does not honour the terms of a derivative contract, and the Company applies the same criteria in selecting counterparties as it does for investing in bonds. As at December 31, 2001 and 2000, all counterparties have a credit rating of "A" or higher.

28 ○ Segmented information

Segmented Statements of Income

	2001					
	Individual		Group		Other	
	Life & Health	Annuities	Life & Health	Pensions	activities*	Total
Revenues						
Premium income	$ 658,8	$ 529.1	$ 449.8	$ 407.0	$ 32.3	$ 2,077.0
Investment income	168.0	151.5	55.2	165.1	2.5	542.3
Fees and other income	6.5	66.9	3.9	7.8	8.5	93.6
	833.3	747.5	508.9	579.9	43.3	2,712.9
Operating expenses						
Cost of commitments to policyowners	483.8	153.7	355.2	365.3	22.3	1,380.3
Net transfer to segregated funds	—	480.0	—	172.8	—	652.8
Commissions, general and other expenses	260.6	81.2	135.1	18.1	22.9	517.9
	744.4	714.9	490.3	556.2	45.2	2,551.0
Income before income taxes	88.9	32.6	18.6	23.7	(1.9)	161.9
Income taxes	(30.4)	(11.3)	(6.6)	(7.3)	0.3	(55.3)
Net income before allocation of other activities	58.5	21.3	12.0	16.4	(1.6)	106.6
Allocation of other activities	(0.9)	(0.3)	(0.1)	(0.3)	1.6	—
Net income	$ 57.6	$ 21.0	$ 11.9	$ 16.1	$ —	$ 106.6
Attributable to shareholders	$ 55.7	$ 21.0	$ 11.9	$ 15.3	$ —	$ 103.9
Attributable to participating policyowners' account	$ 1.9	$ —	$ —	$ 0.8	$ —	$ 2.7

* Includes other segments and intercompany eliminations.

Years ended December 31, 2001 and 2000 (in millions of dollars)

28 Segmented information (continued)

	2000					
	Individual		Group		Other	
	Life & Health	Annuities	Life & Health	Pensions	activities*	Total
Revenues						
Premium income	$ 607.8	$ 613.8	$ 388.9	$ 616.5	$ 12.0	$ 2,239.0
Investment income	190.7	165.8	54.2	189.4	(0.9)	599.2
Fees and other income	1.1	65.4	3.0	7.3	11.3	88.1
	799.6	845.0	446.1	813.2	22.4	2,926.3
Operating expenses						
Cost of commitments to policyowners	483.1	129.5	308.0	(922.0)	8.8	7.4
Net transfer to segregated funds	—	600.6	—	1,694.3	—	2,294.9
Commissions, general and other expenses	246.4	75.6	129.8	19.0	20.1	490.9
	729.5	805.7	437.8	791.3	28.9	2,793.2
Income before income taxes	70.1	39.3	8.3	21.9	(6.5)	133.1
Income taxes	(12.8)	(13.9)	(5.2)	(5.2)	4.8	(32.3)
Net income before allocation of other activities	57.3	25.4	3.1	16.7	(1.7)	100.8
Allocation of other activities	(1.0)	(0.3)	(0.1)	(0.3)	1.7	—
Net income	$ 56.3	$ 25.1	$ 3.0	$ 16.4	$ —	$ 100.8
Attributable to shareholders	$ 55.1	$ 25.0	$ 3.0	$ 15.0	$ —	$ 98.1
Attributable to participating policyowners' account	$ 1.2	$ 0.1	$ —	$ 1.4	$ —	$ 2.7

* Includes other segments and intercompany eliminations.

Years ended December 31, 2001 and 2000 (in millions of dollars)

28 ○ Segmented information (continued)

Segmented Balance Sheets

	2001					
	Individual		Group		Other	
	Life & Health	Annuities	Life & Health	Pensions	activities*	Total
Assets						
Investments	$ 3,668.2	$ 2,000.4	$ 763.0	$ 2,091.7	$ 47.4	$ 8,570.7
Other assets	88.0	33.8	51.1	57.8	84.9	315.6
	$ 3,756.2	$ 2,034.2	$ 814.1	$ 2,149.5	$ 132.3	$ 8,886.3
Liabilities and equity						
Actuarial liabilities	$ 2,836.3	$ 1,711.6	$ 685.2	$ 1,788.2	$ 0.2	$ 7,021.5
Other liabilities	223.2	39.2	6.8	72.0	102.5	443.7
Deferred credits	167.7	50.9	13.0	82.7	3.6	317.9
Subordinated debentures	51.6	66.7	24.2	42.5	—	185.0
Participating policyowners' account	33.8	0.2	—	19.4	—	53.4
Equity	443.6	165.6	84.9	144.7	26.0	864.8
	$ 3,756.2	$ 2,034.2	$ 814.1	$ 2,149.5	$ 132.3	$ 8,886.3

	2000					
	Individual		Group		Other	
	Life & Health	Annuities	Life & Health	Pensions	activities*	Total
Assets						
Investments	$ 3,372.3	$ 2,082.0	$ 709.7	$ 2,069.1	$ 27.8	$ 8,260.9
Other assets	92.8	20.7	47.0	55.0	95.4	310.9
	$ 3,465.1	$ 2,102.7	$ 756.7	$ 2,124.1	$ 123.2	$ 8,571.8
Liabilities and equity						
Actuarial liabilities	$ 2,590.9	$ 1,778.3	$ 642.4	$ 1,768.4	$ —	$ 6,780.0
Other liabilities	226.3	11.9	13.3	63.1	98.3	412.9
Deferred credits	184.7	62.3	18.5	95.2	4.0	364.7
Subordinated debentures	40.4	66.7	35.4	42.5	—	185.0
Participating policyowners' account	28.2	1.5	—	21.0	—	50.7
Equity	394.6	182.0	47.1	133.9	20.9	778.5
	$ 3,465.1	$ 2,102.7	$ 756.7	$ 2,124.1	$ 123.2	$ 8,571.8

* Includes other segments and intercompany eliminations.

29 ○ Comparative figures

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

Appointed Actuary's

Report and Auditors' Report

APPOINTED ACTUARY'S REPORT

To the shareholders of Industrial-Alliance Life Insurance Company

I have valued the actuarial liabilities of Industrial-Alliance Life Insurance Company for its consolidated balance sheets as at December 31, 2001 and 2000 and the variation in the actuarial liabilities in its consolidated statements of income for the years then ended. These valuations were carried out in accordance with accepted actuarial practice, using appropriate assumptions and methods.

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

Michel Sanschagrin

Fellow of the Canadian Institute of Actuaries

Québec, February 1, 2002

AUDITORS' REPORT

To the shareholders of Industrial-Alliance Life Insurance Company

We have audited the consolidated balance sheets of Industrial-Alliance Life Insurance Company and the consolidated statements of net assets of its segregated funds as at December 31, 2001 and 2000 and the consolidated statements of income, equity, cash flows and changes in net assets of the segregated funds for the years then ended. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Industrial-Alliance Life Insurance Company and of its segregated funds as at December 31, 2001 and 2000 and the results of its operations, its cash flows and the changes in net assets of the segregated funds for the years then ended in accordance with Canadian generally accepted accounting principles.

Samson Bélair Deloitte & Touche, s.e.n.c.

Samson Bélair Deloitte & Touche

Chartered Accountants

Québec, February 1, 2002

Five-Year History

Consolidated Financial Data*

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

	Capital-stock Company			Mutual Company		
	2001	2000	1999 (pro forma)	1999	1998	1997
PROFITABILITY AND CAPITALIZATION						
Net income attributable to shareholders						
Including unusual items	103.9	98.1	75.0	83.4	69.7	65.4
Excluding unusual items	103.9	92.1	69.7	78.1	69.7	65.4
Return on shareholders' equity	14.0%	14.0%[1]	12.1%[1]	13.6%	13.0%	14.0%
Earnings per share (basic and diluted)						
Including unusual items	$ 2.75	$ 2.59	$ 1.98	-	-	-
Excluding unusual items	$ 2.75	$ 2.43	$ 1.84	-	-	-
Book value per share	$ 20.98	$ 18.72	$ 16.88	-	-	-
Earnings per share by line of business[1]						
Individual Insurance	$ 1.48	$ 1.22	$ 0.94	-	-	-
Group Insurance	$ 0.31	$ 0.10	$ (0.08)	-	-	-
Individual Annuities	$ 0.55	$ 0.71	$ 0.65	-	-	-
Group Pensions	$ 0.41	$ 0.40	$ 0.33	-	-	-
Total	$ 2.75	$ 2.43	$ 1.84	-	-	-
Capitalization						
Subordinated debentures	185.0	185.0	185.0	185.0	110.0	110.0
Retained earnings	397.6	316.9	-	647.8	570.5	498.4
Currency translation account	10.2	7.4	5.1	5.1	12.7	8.1
Participating policyowners' account	53.4	50.7	47.9	-	-	-
Preferred equity shares	75.0	75.0	75.0	-	-	-
Preferred equity securities	-	-	-	75.0	-	-
Capital-stock (common)	382.0	379.2	591.8	-	-	-
Total	1,103.2	1,014.2	904.8	912.9	693.2	616.5
Debt to capital ratio	16.8%	18.2%	20.4%	20.3%	15.9%	17.8%
Minimum continuing capital and surplus requirements (MCCSR): ratio	187%	187%	-	181%	182%	181%
MARKET DATA						
Share price	$ 46.65	$ 40.65[2]	-	-	-	-
Number of shares outstanding (in millions)	37.6	37.6	-	-	-	-
Market capitalization	1,756.3	1,527.7	-	-	-	-
BUSINESS GROWTH						
Total premiums						
Including CMA	2,077.0	2,239.0	2,009.2	2,009.2	1,788.2	1,643.9
Excluding CMA	1,905.0	1,825.3	1,593.7	1,593.7	1,339.9	1,347.6
Investment income	542.3	599.2	743.2	743.2	598.5	588.3
Fees and other revenue	93.6	88.1	68.0	68.0	49.1	35.1
Total revenues	2,712.9	2,926.3	2,820.4	2,820.4	2,435.8	2,267.3
Individual Insurance						
Sales (annualized premiums)	145.0	134.1	114.4	106.0[3]	74.7[3]	60.8[3]
Premiums	658.8	607.8	534.6	534.6	416.3	372.6
Group Insurance						
Sales						
Employee plans (annualized premiums)	65.6	39.6	39.8	39.8	33.1	18.6
Creditor insurance (gross premiums)	108.0	100.3	90.5	90.5	12.4	21.8
Premiums (including ASO)	483.3	417.9	356.5	356.5	233.5	212.5
Individual Annuities						
Premiums	529.1	613.8	477.3	477.3	502.6	523.7
Funds under management	4,649.8	4,645.8	4,564.2	4,564.2	3,513.7	3,328.3

* The financial data for the years 2001, 2000 and the 1999 pro forma data are presented on a capital stock company basis, and on a mutual company basis for the years 1997 to 1999.
1 Excluding unusual items.
2 The share was issued on February 3, 2000 at $15.75 per share.
3 Former method of calculation.

Consolidated Financial Data*

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

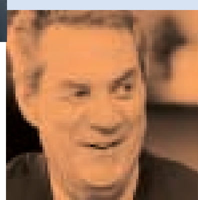
	Capital-stock Company			Mutual Company		
	2001	2000	1999 (pro forma)	1999	1998	1997
Group Pensions						
Sales[4]	344.1	257.5	220.8	220.8	161.3	207.7
Premiums (net of reinsurance)						
Including CMA	407.0	616.5	636.3	636.3	609.6	504.0
Excluding CMA	235.0	202.8	220.8	220.8	161.3	207.7
Funds under management						
Including CMA	2,716.4	4,178.1	3,903.3	3,903.3	3,465.7	3,070.5
Excluding CMA	2,687.6	2,657.2	2,530.8	2,530.8	2,428.3	2,390.0
Assets under management/administration						
General funds	8,886.3	8,571.8	9,652.3	9,652.3	8,083.1	7,600.1
Segregated funds	4,061.6	5,439.5	3,388.3	3,388.3	2,540.6	2,044.9
Other	2,192.7	90.6	6.8	6.8	-	-
Total	15,140.6	14,101.9	13,047.4	13,047.4	10,623.7	9,645.0
DISTRIBUTION OF INVESTMENTS BY REGION						
Atlantic Provinces	4.4%	4.0%	4.1%	4.1%	4.4%	4.0%
Quebec	49.3%	49.8%	45.4%	45.4%	51.8%	54.1%
Ontario	20.5%	20.1%	23.0%	23.0%	19.6%	18.6%
Western Provinces	18.5%	20.2%	22.7%	22.7%	17.7%	17.1%
Outside Canada	7.3%	5.9%	4.8%	4.8%	6.5%	6.2%
Total	100%	100%	100%	100%	100%	100%
QUALITY OF INVESTMENTS						
Impaired assets as a % of investments	0.28%	0.26%	0.26%	0.26%	0.79%	1.17%
Bonds						
Rating – A and higher	91.45%	92.56%	92.48%	92.48%	91.62%	91.15%
Rating – BBB	8.52%	7.21%	7.43%	7.43%	8.12%	8.56%
Rating – BB and lower	0.03%	0.23%	0.09%	0.09%	0.26%	0.29%
Total	100%	100%	100%	100%	100%	100%
Delinquency rate	0.03%	0.00%	0.00%	0.00%	0.23%	0.13%
Mortgage loans						
Delinquency rate						
Insured	0.27%	0.48%	0.52%	0.52%	0.85%	2.38%
Conventional	0.62%	0.08%	0.12%	0.12%	0.31%	0.94%
Total	0.48%	0.23%	0.28%	0.28%	0.54%	1.54%
Proportion of loans which are insured	40.9%	39.3%	39.7%	39.7%	41.5%	42.0%
Real estate						
Occupancy rate	96.3%	96.7%	95.1%	95.1%	91.0%	95.1%
Stock and market indices						
Common stocks	7.4%	4.6%	4.3%	4.3%	11.0%	6.6%
Preferred stocks	29.8%	31.6%	39.1%	39.1%	41.7%	42.7%
Market indices	19.3%	13.6%	18.8%	18.8%	42.7%	42.6%
Segregated funds	43.5%	50.2%	37.8%	37.8%	4.6%	8.1%
Total	100%	100%	100%	100%	100%	100%
Market to book value in %	98.2%	102.1%	107.4%	107.4%	102.1%	101.4%
OTHER INFORMATION						
General expenses	212.0	205.4	192.0	189.9	145.6	137.0
Human resources						
(number of people, life insurance companies)						
Number of employees	2,035	1,948	1,932	1,932	1,611	1,535
Number of Career Representatives	1,270	1,218	1,187	1,187	1,216	1,152

[4] Gross premiums and deposits excluding the Canadian Medical Association (CMA).

Board of Directors

of Industrial Alliance Insurance and Financial Services

Raymond Garneau – O.C., M.C.Sc., L.E.Sc.
Chairman of the Board
Industrial Alliance
Insurance and Financial Services



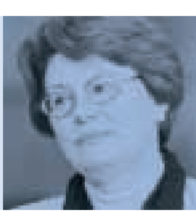
Gilles Laroche – Engr.
Vice-Chairman of the Board
Corporate Director

Dr. Francesco Bellini – Ph.D., O.C., G.U.
Chairman of the Board
Picchio International Ltd.

Louis Bernard – O.Q., B.A., LL.L., M.A., Ph.D.
Louis Bernard Consultant inc.

Pierre Brodeur
President and Chief Executive Officer
SICO Inc.

Yvon Charest – F.S.A., F.C.I.A.
President and Chief Executive Officer
Industrial Alliance
Insurance and Financial Services

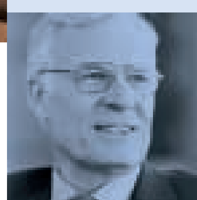


Anne Dutil – Adm., B.A., B.Com.C.
President
Placements Lacroix Dutil, inc.

Michel Gervais – Ph.D., O.C., O.Q.
Executive Director
Centre hospitalier Robert-Giffard

Lise Lachapelle – B.A.A.
Corporate Director

John LeBoutillier – LL.L., M.B.A.
Chairman of the Board
Intellium Technologies Inc.



Jean Marier – LL.L.
Corporate Director

Francis McGuire
President and Chief Executive Officer
Major Drilling Group International Inc.

Jim Pantelidis – B.Sc., M.B.A.
President
J.P. & Associates Ltd.

David R. Peterson – P.C., Q.C., LL.D.
Chairman
Cassels Brock & Blackwell LLP

Guy Savard – FCA, C.M.
Vice-Chairman and Chairman Quebec Operations
Merrill Lynch Canada Inc.

Secretary of the Board
Georges Smith – LL.L., F.C.G.A.

Assistant Secretary
Mylène Sabourin – LL.L., LL.M.

- Executive Committee
- Investment Committee
- Audit Committee
- Human Resources Committee
- Ethics Committee

Planning Committee

of the Industrial Alliance Group

In the fall of 1999, a planning committee was created for the Industrial Alliance Group. Made up of five senior managers from Industrial Alliance, National Life, and IA *Pacific* Life, the committee's mandate is to develop and implement an action plan that aims to position the Industrial Alliance Group among the leaders in the life and health insurance industry in Canada.

Yvon Charest – F.S.A., F.C.I.A.

President and Chief Executive Officer

Industrial Alliance
Insurance and Financial Services

Vincent P. Tonna – C.G.A.

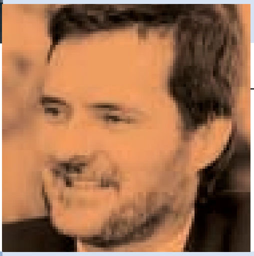
President and Chief Operating Officer

The National Life
Assurance Company of Canada

John B. Gill – M.B.A.

President

Industrial Alliance *Pacific*
Insurance and Financial Services



Normand Pépin – F.S.A., F.C.I.A.

Executive Vice-President,
Life Subsidiaries
Vice-President and General Manager,
Individual Insurance and Annuities

Industrial Alliance Insurance and Financial Services

Yvon Côté - CFA

Vice-President and General Manager
Finance and Investments

Industrial Alliance
Insurance and Financial Services

Management of the Companies

in the Industrial Alliance Group

Industrial Alliance Insurance and Financial Services

- **Yvon Charest** – F.S.A., F.C.I.A. ●
  President and Chief Executive Officer
- **Yvon Côté** – CFA ●
  Vice-President and General Manager
  Finance and Investments
- **Normand Pépin** – F.S.A., F.C.I.A. ●
  Executive Vice-President,
  Life Subsidiaries
  Vice-President and General Manager
  Individual Insurance and Annuities
- **Michel Sanschagrin** – F.S.A., F.C.I.A.
  Vice-President and General Manager
  Administration and Chief Actuary
- **Georges Smith** – LL.L., F.C.G.A.
  Vice-President and General Manager
  Corporate Affairs
  Secretary of the Company
- **Raymond A. Bertrand** – CLU, F.L.M.I.
  Vice-President, Sales, Career Section
- **Jacques Carrière** – M.E.Sc.
  Vice-President,
  Investor Relations and Secretary of
  the Management Committee
- **René Chabot** – F.S.A., F.C.I.A.
  Vice-President, Group Pensions
- **Réjean Devin** – B.Sc. Phys., F.L.M.I.
  Vice-President, Information Systems
- **Louis Falardeau** – CFA ●●
  Vice-President
  Investments, Segregated Funds
- **Michel Gauthier** –
  B.Sc.Math., C.M.A., F.L.M.I.
  Vice-President, Administration
  Individual Insurance and Annuities
- **Maurice Germain** – F.S.A., F.C.I.A.
  Vice-President, Internal Audit
- **Paul R. Grimes** – CFP, CLU, Ch.F.C.
  Vice-President, Sales, Ontario
- **Richard Legault** – CA, CFA ●●
  Vice-President
  Investments, General Funds
- **Bruno Michaud** – B.B.A., F.L.M.I./M.
  Vice-President, Sales
  General Agents Section
  Quebec and the Atlantic Provinces
- **Joe O'Farrell** – C.M.A., F.L.M.I.
  Vice-President, Human Resources
- **Jean-Pierre Paradis** ●●
  Vice-President, Mortgage Loans
- **Jacques Parent** – F.S.A., F.C.I.A. ●●
  Vice-President, Sales and Underwriting
  Group Insurance
- **Yvon Sauvageau** – M.E.Sc.
  Vice-President
  Development, Financial Services
- **Claude Tessier** – B.Sc.A.
  Vice-President
  Real Estate Investments

The National Life Assurance Company of Canada

- **Vincent P. Tonna** – C.G.A. ●
  President and Chief Operating Officer
- **David H. Creswell** – B.A., LL.B., F.L.M.I.
  General Counsel and Corporate Secretary
- **René E. Trudeau** –
  B.Sc., F.S.A., F.C.I.A., M.A.A.A.
  Senior Vice-President and Chief Actuary
- **Gary J. Coles** – FLMI/M, ACS
  Vice-President, Individual Administration
- **Herbert Huck** – B.B.A., C.A., C.M.A.
  Vice-President, Taxation
  and Advanced Marketing
- **Refat A. Jiwani** –
  F.C.C.A., C.M.A., F.L.M.I. ●●
  Vice-President and Corporate Comptroller
- **David E. Kent** – B.A., M.A., M.B.A. ●●
  Vice-President, Group Insurance
- **Wilfried O. Loewrigkeit** – F.L.M.I., I.S.P.
  Vice-President, Systems and Services
- **Emil J. Petko** – B.A., LL.B.
  Vice-President and Associate
  General Counsel
- **Susan Stanfield** – C.H.R.P.
  Vice-President, Human Resources
  and Communications
- **Brian E. Wrixon** – CLU
  Vice-President, Individual Insurance Sales

Industrial Alliance *Pacific* Insurance and Financial Services

- **John B. Gill** – M.B.A. ●
  President
- **Gerald Bouwers** – F.S.A., F.C.I.A.
  Vice-President and General Manager
  Individual Insurance, Canada
- **Ronald W. Pepper** – A.S.A., M.A.A.A.
  Vice-President and General Manager
  Individual Insurance, U.S.
- **Michael L. Stickney** –
  M.B.A., F.S.A., F.C.I.A.
  Vice-President and General Manager
  Group Insurance
- **Douglas A. Carrothers** – LL.B., M.B.A.
  Vice-President, Law and Investments
  and Corporate Secretary
- **Kathryn M. Cooper**
  Vice-President, Human Resources
- **Paul R. Grimes** – CFP, CLU, Ch.F.C.
  Vice-President, Sales, Ontario
- **Douglas J. Hart** – B.Comm.
  Vice-President, Sales, SAL
- **Alnoor R. Jiwani**
  Vice-President, Information Services
- **Gordon A. Robinson** – M.A.
  Vice-President and Controller

Industrial Alliance Auto and Home Insurance

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

Industrial Alliance Securities

- **Gaétan Plante** – F.C.S.I.
  President

● Member of the Planning Committee
●● Responsibilities on the Group level

Offices

Industrial Alliance Insurance and Financial Services

Head Office – Quebec City
1080 Saint-Louis Road, Sillery
PO Box 1907, Station Terminus
Quebec City QC G1K 7M3
(418) 684-5000
1-800-463-6236
www.inalco.com

Ontario Regional Office •
160 Eglinton Avenue E., 7th Floor
Toronto ON M4P 3B5
(416) 487-0242

Group Insurance
Employee Plans

Moncton
140 Champlain Street, Suite 107
Dieppe NB E1A 1N8
(506) 856-5989

Quebec City
3700 rue du Campanile, Suite 107
Sainte-Foy QC G1X 4G6
(418) 650-1821

Montreal
680 Sherbrooke Street W.
9th Floor
Montreal QC H3A 2S6
(514) 499-3750

Toronto
522 University Avenue
Toronto, ON M5G 1Y7
(416) 585-8055

Calgary
777 8th Avenue West, Suite 2050
Calgary, AB T2P 3R5
(403) 303-4454

Vancouver
1055 West Hastings Street, Suite 1130
Vancouver, BC V6E 2E9
(604) 689-0388

Mortgage Loans

Quebec City
925 Saint-Louis Road, Suite 300
Quebec City QC G1S 1C1
(418) 686-7738

Montreal
680 Sherbrooke Street W, Suite 110
Montreal QC H3B 3K6
(514) 499-6680

Group Pensions

Halifax
5475 Spring Garden Road, Suite 502
Halifax, NS B3J 3T2
(902) 422-6479
1-800-255-2116

Quebec City
3700 rue du Campanile, Suite 103
Sainte-Foy QC G1X 4G6
(418) 653-4097
1-800-549-4097

Montreal
680 Sherbrooke Street W.
9th Floor
Montreal QC H3A 2S6
(514) 499-6600
1-800-697-9767

Toronto
522 University Avenue
Toronto, ON M5G 1Y7
(416) 585-8839
1-877-902-4920

The National Life Assurance Company of Canada

Head Office – Toronto
522 University Avenue
Toronto ON M5G 1Y7
(416) 598-2122
www.NationalLife.ca

Industrial Alliance *Pacific* Insurance and Financial Services

Head Office – Vancouver
2165 West Broadway
Vancouver BC V6K 4N5
(604) 734-1667
www.iapacificlife.com

Group Insurance
Special Risks

Toronto
515 Consumers Road, Suite 400
Toronto, ON M2J 4Z2
(416) 498-8319
1-800-611-6667

Calgary
777 8th Avenue West, Suite 2050
Calgary, AB T2P 3R5
(403) 266-7582
1-800-661-1699

Vancouver
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PO Box 5900
Vancouver, BC V6B 5H6
(604) 734-1667

Industrial Alliance Auto and Home Insurance

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Quebec City QC G1S 1C1
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Head Office – Quebec City
1080 Saint-Louis Road, Sillery
PO Box 1907, Station Terminus
Quebec City QC G1K 7M3
(418) 684-5000
1-800-463-6236
www.inalco.com

• Regional office in Toronto for Industrial Alliance Insurance and Financial Services and Industrial Alliance *Pacific* Insurance and Financial Services

Shareholder
Information

To reach us

There are three departments you may contact, depending on the type of information you would like to obtain:

1 If you have questions about your shares, contact Computershare Trust Company of Canada, Industrial Alliance's share transfer agent at:

Telephone: 1-877-684-5000 (toll-free)
E-mail: inalco@computershare.com

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

Telephone: (418) 684-5000, extension 5282
1-800-463-6236, extension 5282 (toll-free)
Fax: (418) 684-5050
E-mail: shares@inalco.com

3 For questions concerning your insurance or annuity contracts or for information on Industrial Alliance's products and services, contact your agent or one of the Industrial Alliance offices listed on page 72 of this report.

Three companies of the Industrial Alliance Group market and distribute their products and services under a commercial name, different from their legal name. The logo identifying each of these companies includes the commercial name, rather than the legal name. When necessary, the symbol is added to the logo to indicate the use of the commercial name.

Legal name:
Industrial-Alliance
Life Insurance Company

Commercial name:
Industrial Alliance
Insurance and Financial Services

Legal name:
Industrial-Alliance *Pacific*
Life Insurance Company

Commercial name:
Industrial Alliance Pacific
Insurance and Financial Services

Legal name:
Industrial-Alliance
General Insurance Company

Commercial name:
Industrial Alliance
Auto and Home Insurance

This annual report was designed by the Communications, Control, Investor Relations and Public Relations Departments of Industrial Alliance.

For more information or to obtain additional copies of this annual report, please contact:

Industrial Alliance Insurance and Financial Services
1080 Saint-Louis Road, Sillery
P.O. Box 1907, Station Terminus
Quebec City QC G1K 7M3

Telephone: (418) 684-5000, extension 5282
1-800-463-6236, extension 5282 (toll-free)

Fax: (418) 684-5050
E-mail: shares@inalco.com

A section of our web site – *Investor Relations* – is specifically designed for shareholders and investors. It contains the Company's main financial information.

Legal Deposit: March 2002
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Ce rapport annuel est aussi disponible en français.

www.inalco.com

INDUSTRIAL ALLIANCE™
INSURANCE AND FINANCIAL SERVICES