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A.M. Best Affirms Financial Strength Rating of Industrial-Alliance; Assigns Initial Debt Ratings

OLDWICK, N.J., July 25, 2001—A.M. Best Co. has affirmed the A (Excellent) financial strength rating of **Industrial-Alliance Life Insurance Company (IA)**, Sillery, Quebec, Canada, and its two life subsidiaries, **National Life Assurance Company of Canada (NL)**, Toronto, Ontario and **Industrial-Alliance Pacific Life Insurance Company (IAP)**, Vancouver, British Columbia. Concurrently, A.M. Best has assigned an “a-” rating to IA’s existing subordinated debt and a “bbb+” rating to the company’s preferred shares.

These ratings reflect the company’s diversified distribution, excellent profitability, continued sales growth in a number of core business lines and adequate capitalization. IA has a strong market presence in the Province of Quebec complemented by growth outside of the Province through the operations of its life insurance subsidiaries. IA operates across Canada, offering a diversified product portfolio through a number of distribution channels, including a favorable position within the broker community. Distribution capacity and diversification has enabled IA to achieve annual premium growth and strong sales in its core universal life product line, where it enjoys a leading market position.

By expanding the business base and reducing cost structure IA has improved its earnings posture and achieved strong returns. IA’s risk adjusted capitalization remains adequate, supported by steady earnings growth and a high quality fixed income and mortgage portfolio, which has performed well over the long-term. Although mortgage loan holdings were reduced, over 1999,

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A.M. Best notes IA's proportion of mortgage loans to capital remains greater than other large Canadian companies.

IA's operating performance is very favorable, with a significant increase in earnings reported for 2000, reflecting a combination of integration synergies across the three operating companies and reduced new business strain. A.M. Best believes earnings and fees generated from life and accumulation business segments are sustainable and strongly support the company's long-term debt service capabilities. Total borrowings – consisting of subordinated debt and preferred shares – as a percent of capital is expected to remain in the 25-30% range over the near to medium-term. However, A.M. Best also recognizes that IA maintains a somewhat less conservative capital position due to increased borrowings in recent years, which may hamper its ability to raise additional debt to fund future initiatives. Although IA's financial leverage is moderate relative to its peers, the level is appropriate for the rating category.

Outside Quebec, IA's life insurance operations are represented by NL and IAP. NL's operating performance continues to improve, reflecting increased penetration of the middle and higher-end markets and effective use of brokerage and national accounts distribution systems. NL contributes significantly to the group's profitability thus strengthening its strategic importance to the enterprise. IAP operates primarily in Western Canada, offering similar products as IA mainly through an independent agency force. IAP's operating performance was enhanced by the acquisition and subsequent amalgamation of Seaboard Life. Capitalizing on its market leadership position in sales of credit life and disability insurance through auto dealers, IAP is focusing on traditional product sales through independent agents, enhancing IA's geographic and distribution diversification.

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Although sales growth and continued expansion outside the Province of Quebec is viewed positively by A.M. Best, IA faces several challenges in significantly expanding its core lines of business in Canada due to the maturity of the Canadian market. Furthermore, in A.M. Best's opinion, it will be difficult for IA to increase market share in the group segment, where it has experienced fluctuating sales and earnings results and where larger Canadian companies have strong competitive advantages. Additionally, IA will be challenged to significantly expand its asset accumulation business and achieve meaningful economies of scale.

Industrial-Alliance Life is the seventh largest Canadian life and health insurance company, offering a wide range of insurance products and financial services throughout Canada, either directly or through its two key subsidiaries. IA also owns a general insurance company, which operates as Industrial Alliance Auto and Home Insurance. The company's stock is listed on the Toronto Stock Exchange (TSE: IAG) and was recently added to the TSE 100, making IA one of the 100 largest public companies in Canada.

As of December 31, 2000, the group reported consolidated assets (including segregated funds) of C\$14.0 billion and capital stock and retained earnings of C\$779 million.

The following debt ratings have been assigned:

Industrial Alliance Life Insurance Company —

- "a-" rating on C\$60 million floating rate subordinated debenture, due 2010
- "a-" rating on C\$50 million 8.40% subordinated debenture, Series 2, due 2006
- "a-" rating on C\$75 million 6.25% plus variable interest subordinated debenture, Series 3, due 2010
- "bbb+" rating on Series 1, C\$75 million 1.00% non-cumulative preferred shares.

A.M. Best Co., established in 1899, is the world's oldest and most authoritative insurance rating and information source. For more information, visit A.M. Best's Web site at www.ambest.com.

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