

INDUSTRIAL-ALLIANCE
Life Insurance Company

1987 ANNUAL REPORT



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Consolidated Financial Statements

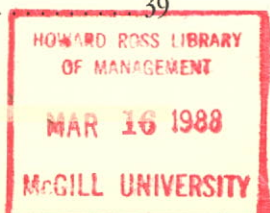
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The Annual Meeting is held on the second Monday of March each year.

Annual Meeting:
Head Office
1080 St-Louis Road
Sillery, Québec G1K 7M3
March 14, 1988



MESSAGE FROM THE MANAGEMENT



Hervé Belzile, F.C.A.
Chairman of the Board

We often read in articles published by major schools of business administration that any merger of companies, regardless of the line of business, is a long and painful process, not an instantaneous event, and that this can turn out to be a costly and traumatic adventure.

It would be pretentious to assert that year 1 of our merger was without pitfalls. However, we note with legitimate pride that Industrial-Alliance Life Insurance Company has taken giant steps towards complete operational integration during its very first year of existence in this new environment and that, in doing so, it has been able to minimize expenses inherent to such process. Furthermore, although this was hardly to be believed, we are already benefiting from the synergism which, we hoped, would come out of this merger. Indeed, such positive results are seldom obtained at short-term under these conditions.



Robert Bégin, F.S.A.
President and Chief Executive Officer

However, the nostalgia felt by abandoning deeply-rooted loyalties to which we referred in the last Annual Report, is fading and slowly giving way to a new team spirit. This is without doubt an aspect of the whole process of merging which we will carefully deal with and which should improve significantly during 1988, especially in view of our excellent financial performance in 1987.

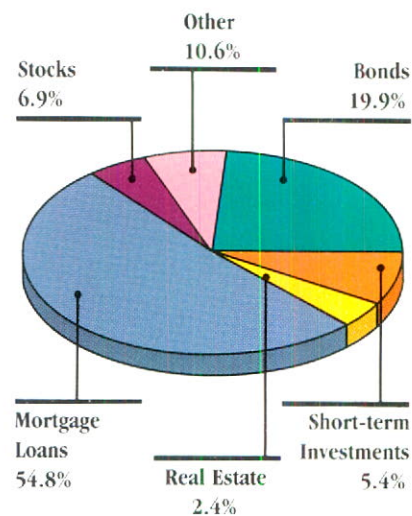
Going full-steam ahead with the process of change in life insurance companies and resolutely maintaining the pace with its own diversification program, Industrial-Alliance Life Insurance Company ended its first year of operations following the merger as leader of a large group of companies providing financial services.

CONSOLIDATED FINANCIAL STATEMENTS

Since this is the first year we are presenting consolidated financial statements for all affiliated companies, we are unable to draw detailed comparisons with last year's figures. Moreover, several accounting items were handled differently in the two merging companies, since they were governed by Québec regulations in one case and by federal government regulations in the other.

Our financial group is constantly developing and has now reached substantial proportions since consolidated assets, shown in the graph on this page, total \$7 billion 116 million. These figures actually

ALLOCATION OF ASSETS



include assets of General Trustco of Canada Inc., a company controlled by the Alliance-Industrial Financial Corporation. It is worth mentioning

that these assets are invested in diversified holdings so as to ensure our clients' security through the best possible match with our contractual commitments. Thus, mortgage loans (residential and commercial) represent 54.8% of our portfolio, bonds 19.9%, stocks 6.9%, short-term investments 5.4% and real estate 2.4%.

Liabilities, with sufficient provisions included to cover the company's contractual commitments, show a surplus of \$310.5 million, including \$85.1 million set aside for specific purposes. This surplus has remained virtually unchanged compared to last year, although 1987 operations resulted in net income of \$29 million. This apparent discrepancy arises due to provincial regulations, which stipulate that the stock portfolio must appear in the assets at its market value, whereas the bond portfolio appears at its cost. In the wake of the October 19, 1987 stock market crash, the market value of our stock was reduced by roughly \$30 million, offsetting the increase in accumulated surpluses that we would otherwise have seen. During the same period, however, the market value of the fixed-income securities portfolio appreciated by a much greater amount, which is not reflected in the financial statements.

Consolidated operating results show a total revenue of \$1 billion 22 million. Insurance premiums and annuities contributed \$551.4 million and investment income \$399.5 million to this income. It was used to increase policy reserves and to pay benefits and interests on guaranteed deposits, as well as commissions and general

expenses, with a surplus of \$29 million remaining for 1987.

Apart from these figures, two major events marked our corporate history in 1987. First, in early January, the legal merger of our two mutual life insurance companies took place. It progressively took shape in the working world as the months went by. We will describe this development in greater detail further on. Second, in September, we acquired a large additional portion of General Trustco stock, an event discussed in the Alliance-Industrial Financial Corporation's Management report.

LIFE INSURANCE AND ANNUITIES

In this new context, in which the life insurance company formed by the merger is spearheading the development of a powerful financial group, we feel it is relevant to identify the areas where progress is being made and the pace at which we are advancing, as well as those where the merger and/or the economic situation may have slowed growth somewhat.

Income

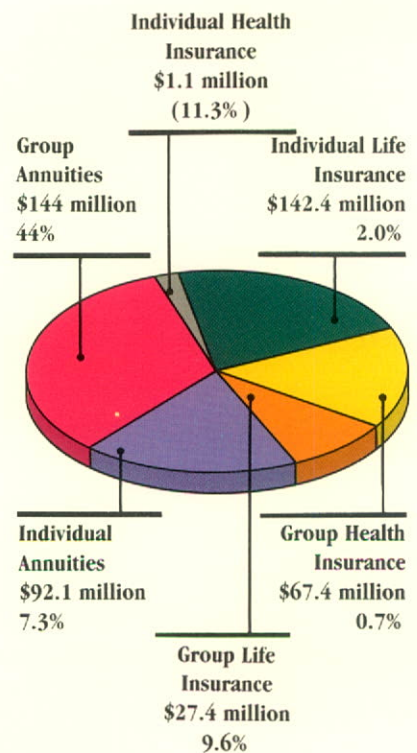
Change in total premium income over last year is undeniably an area of progress, since it enjoyed a 13.3% jump, climbing from \$418.8 million to \$474.6 million. Contribution to this increase by various lines of business was uneven, as can be seen from the graph on this page.

Investment income edged up only 2% to reach \$237.8 million. This levelling-off of growth compared to past years can be explained by the

overall downward trend in interest rates, the abrupt reversal in stock markets, and major investments which, due to the premium paid, resulted in a temporary reduction of yield. These investments were made to consolidate our position over the long-term in the broader field of financial services.

With the combined boost from both higher premium and investment income, total income was up 9.1% in 1987, totalling \$716.8 million. On another count, \$483.6 million was paid or credited to our policyholders and their beneficiaries. This figure represents 107.6% of the amount paid out for such purpose in 1986. It well illustrates our role of trustee towards our policyholders.

BREAKDOWN OF PREMIUM INCOME IN 1987 AND CHANGES OVER 1986



Payments to policyholders and beneficiaries

The breakdown of various types of benefits paid and changes in each as compared to last year are shown in the graph on this page. These data show that payments in the case of death for individual life insurance have risen in direct proportion to the total portfolio and the aging of our policyholders. However, they have remained in line with our rating hypotheses.

Our performance was good in group life insurance. Indeed, benefits paid in 1987 represent 89.6% of those paid in 1986, whereas premium income rose 9.6%. Payments made in group health insurance, however, were up 3.3% while premium income edged up only 0.7%. Evidently, the morbidity rate in this branch of activity is so high that we are approaching the non-profitability level and, consequently, must take appropriate corrective action.

Furthermore, greater maturity in our portfolio was reflected by a 4.4% upswing in amounts paid for surrenders of life insurance policies, as well as of individual and group annuities. This overly high volume of policy surrenders is due to the volatile market and the ever-fierce ongoing competition. It should also be noted that contract transfers from general to segregated funds are reflected in our financial statements under premium income, the normal rise in the actuarial reserve, paid benefits and additions to these segregated funds. The effect on the financial year's surplus is, nevertheless, virtually nil. It should be remembered, however, that

the scope of these changes are indicative of consumer preferences and that adjustments should be made accordingly to our marketing strategies and operating methods.

General expenses

The level of general expenses, at \$66.5 million, is another source of satisfaction, since they only represent 97% of 1986 level, and were achieved despite increases in certain specific accounting items. These results provide a glimpse of additional possibilities offered by the merger over a longer term. As early as 1987, we were able to

integrate the administration of nearly all individual insurance policies into the same computerized system and of the mortgage loan portfolios into another. We also integrated accounting operations into a single computerized system and are well along in standardizing and integrating the few remaining operations handled separately.

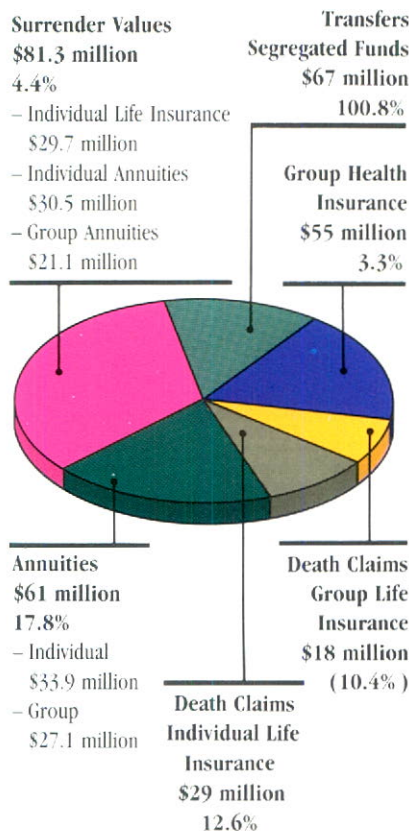
Sales

Our Marketing division also underwent numerous adjustments in highly delicate matters. As smoothly as possible, it integrated two networks of career agencies. It proceeded with the task of standardizing the portfolio of insurance products and individual annuities as well as the pay scales and methods of payment for our sales force. These changes and the inconveniences they inevitably occasioned, along with the increased competition among general agents, halted the rapid expansion in sales that we had enjoyed for the past few years.

Sales of individual life insurance nevertheless reached \$5 billion 134 million in face value coverage, bringing our insurance in force up to \$23 billion 754 million. Sales of individual and group annuities, and of deposit administration contracts all leaped ahead considerably, although it is difficult again to quantify the gains because of prior differences in classification.

Turning to collective life and health insurance, we would like to point out that, prior to the merger, this line of insurance carried by Alliance, one of the two former companies, was handled as a joint venture with

BREAKDOWN OF PAYMENTS TO POLICYHOLDERS AND BENEFICIARIES IN 1987 AND CHANGES OVER 1986



Standard Life. The venture included a common portfolio and another portion of the portfolio labelled separately as belonging to the two participating firms. This agreement is still in effect on a new basis, and the portfolio of Industrial Life, the other ex-company, will shortly be combined with that of the joint venture. Consequently, it is difficult to present detailed results in this area, other than the changes in amounts of premiums collected and benefits paid which were presented earlier. We remain confident, however, of reaching the level of profitability which has always been so important for the financial health of our organization.

We are also in the process of building a Canada-wide sales network with the help of our fully-owned subsidiary The North West Life Assurance Company of Canada in Vancouver. Together, the operations of this company and its American subsidiary, The North West Life Assurance Company of America, account for assets totalling \$422.3 million, with \$147.6 million in the Canadian division and \$274.6 million in the American division of their

operations. The capital and consolidated retained earnings of these two subsidiaries total \$26.8 million but the growth rate of their sales compared to the size of their insurance and pension portfolios requires that we continue to provide financial support through additional capitalization for a while yet.

BOARD OF DIRECTORS

Moreover, given the growth of our group of companies and our presence in new fields, certain administrators had to face difficult choices imposed by the regulations of the various financial sectors. In this context, we were sorry to have to accept the resignation of Mr. Jean Béliveau whose enlightened and carefully-weighed judgement had been very helpful in our deliberations. We are very proud to have had him in our ranks and are sorry to lose his administrative skills and services. On the other hand, we wish to express our gratefulness and thanks to the members of our Board for their pertinent and excellent advice, and for their constant support throughout 1987.

CONCLUSION

Finally, some administrative management personnel and employees decided to pursue their career in other fields of endeavor. Fortunately, many others chose to remain with the new Company. Their hard work has contributed to the success of this first year in the existence of Industrial-Alliance. We greatly appreciate their efforts and are convinced that their dedication is our best guarantee of a future still more exciting and promising for our new Company.



Hervé Belzile, F.C.A.
Chairman of the Board



Robert Bégin, F.S.A.
President and
Chief Executive Officer

BOARD OF DIRECTORS

Hervé Belzile, F.C.A.
Chairman of the Board of the Company
Industrial-Alliance
Life Insurance Company

Robert Bégin, F.S.A.
Vice-Chairman of the Board of the Company
President and Chief Executive Officer
Industrial-Alliance
Life Insurance Company

Jean Denis Vincent
Vice-Chairman of the Board of the Company
President and Chief Executive Officer
Alliance-Industrial
Financial Corporation

Marc Bourgie
Chairman of the Board and
Chief Executive Officer
Urgel Bourgie Ltd.

J. Marcel Boyer, C.A.
Executive Vice-President and
Assistant to the President
Industrial-Alliance
Life Insurance Company

Pierre Brunet, C.A.
President and Chief Executive Officer
Lévesque, Beaubien Inc.

Marcel Cazavan, F.C.A.
Chairman of the Board
General Trust of Canada

André Charron, Q.C., C.M.
Chairman of the Board
Lévesque, Beaubien Inc.

Camille A. Dagenais, C.C.
Consultant
Groupe S N C

Norman D. Hébert
President and Chief Executive Officer
Groupe Park Avenue Inc.

Roger Lachapelle
President and Chief Executive Officer
Les Distilleries Corby Ltée

G. Yves Landry, M.Sc.C.
General Manager (Import Division)
Chrysler Motors Corporation

David Morton, M.A.
President and Chief Operating Officer
Alcan Aluminium Ltd.

P.-Émile Reinhardt, CFA
Vice-President and
General Manager, Investments
Industrial-Alliance
Life Insurance Company

BOARD COMMITTEES

Executive Committee
Jean Denis Vincent — Chairman
Robert Bégin
Hervé Belzile
Pierre Brunet
André Charron
Roger Lachapelle

Investment Committee
Marcel Cazavan — Chairman
Robert Bégin
Marc Bourgie
J. Marcel Boyer
André Charron
P.-Émile Reinhardt

Audit Committee
Camille A. Dagenais — Chairman
Robert Bégin
Pierre Brunet
Norman D. Hébert

Human Resources Committee
André Charron — Chairman
Robert Bégin
Hervé Belzile
Roger Lachapelle
G. Yves Landry
Jean Denis Vincent

Georges Smith, L.L.L.
Secretary of the Board

CONSOLIDATED FINANCIAL STATEMENTS OF
INDUSTRIAL-ALLIANCE
LIFE INSURANCE COMPANY

CONSOLIDATED INCOME
Year ended December 31, 1987
(in thousands of dollars)

INCOME	
	\$
Insurance and annuity premiums	551 383
Investment income	399 450
Fees and real estate brokerage	17 276
Other	54 757
	1 022 866

APPROPRIATION OF INCOME	
Normal increase in policy reserves	166 074
Claims incurred	344 182
Interest	106 220
Dividends and group experience refunds	59 467
Commissions	66 473
Taxes, licences and fees	5 833
General expenses	154 701
Segregated funds and miscellaneous	85 677
	988 627
Net income before income taxes and minority interest	34 239
Income taxes	1 437
	32 802
Net income before minority interest	32 802
Minority interest	3 768
Net income for the year	29 034

CONSOLIDATED SURPLUS
 Year ended December 31, 1987
 (in thousands of dollars)

APPROPRIATED SURPLUS (note 3)

	\$
Balance resulting from the merger	112 986
Changes in additional reserves	(2 280)
Changes in valuation reserve for stocks and deferred capital gains and losses realized on bonds and stocks	(25 580)
Balance at end	85 126

UNAPPROPRIATED SURPLUS

Balance resulting from the merger	197 969
Net income for the year	29 034
Changes in valuation of policy reserves	(3 922)
Transfer from appropriated surplus for additional reserves	2 280
Balance at end	225 361

CONSOLIDATED BALANCE SHEET
(in thousands of dollars)

ASSETS		
INVESTMENTS	As of December 31, 1987	As of January 1, 1987
	\$	\$
Bonds (note 4)	1 416 427	828 537
Stocks (note 5)	493 107	341 948
Mortgage loans	3 901 389	1 117 309
Other loans	177 690	
Real estate (note 6)	170 208	122 860
Policy loans	78 027	79 205
Short-term investments and cash	385 143	94 118
	6 621 991	2 583 977
OTHER ASSETS		
Investment income due	34 871	37 527
Fixed assets (note 6)	37 954	21 096
Miscellaneous (note 7)	214 300	67 858
Segregated funds	207 040	152 068
	494 165	278 549
	7 116 156	2 862 526

On behalf of the Board:

Hervé Belzile, Director

Robert Bégin, Director

LIABILITIES

ACTUARIAL LIABILITIES	As of December 31, 1987	As of January 1, 1987
	\$	\$
Policy reserves	2 268 108	2 098 112
Provision for dividends and group experience refunds	20 521	19 280
	<hr/> 2 288 629	<hr/> 2 117 392

OTHER LIABILITIES

Guaranteed deposits (note 8)	3 771 262	
Long-term debts (note 9)	118 113	21 790
Premiums paid in advance and amounts on deposit	63 514	65 235
Provision for unreported and unsettled claims	20 563	24 357
Unearned premiums	16 180	14 200
Other contractual liabilities	1 994	3 686
Accounts payable and accrued expenses	55 307	22 272
Bank overdrafts and loans	21 111	22 362
Deferred income taxes	13 415	1 753
Miscellaneous	114 250	105 454
Segregated funds	207 034	151 725
	<hr/> 4 402 743	<hr/> 432 834
Minority interest	114 297	1 345

POLICYHOLDERS' EQUITY

Surplus — appropriated (note 3)	85 126	112 986
— unappropriated	225 361	197 969
	<hr/> 310 487	<hr/> 310 955
	<hr/> 7 116 156	<hr/> 2 862 526

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1987

(in thousands of dollars)

1. STATUS AND NATURE OF ACTIVITIES

This mutual life insurance company was incorporated under the Act respecting Insurance (Québec) and results from the merger, on January 1, 1987, of Industrial Life Insurance Company and Alliance Mutual Life Insurance Company.

The pooling of interests method was used to account for this combination which necessitated the adjustment of the policyholders' equity for purposes of harmonizing the accounting policies according to the Act respecting Insurance (Québec). Moreover, the statements of income and surplus have not been prepared on a comparative basis.

2. ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the specific principles and rules applying to each of the various entities included in the consolidation, namely:

- life insurance companies governed by the laws of Québec or Canada;
- general insurance companies;
- trust companies.

Such principles are as follows:

Consolidation principles

The consolidated financial statements include the accounts of the Company and its subsidiaries. Investments other than portfolio investments in common and preferred stocks are recorded using the following methods:

- the accounts of subsidiaries are consolidated;
- the accounts of the joint venture are presented using the method of proportionate consolidation;
- the 20.5% holding in an associated company is accounted for by the equity method.

Bonds

Bonds are recorded at cost, adjusted by amortization of premiums and discounts. However, those held by companies governed by the Canadian and British Insurance Companies Act are recorded at amortized cost, plus or minus the unamortized portion of gains and losses realized on the sale of such securities.

Gains and losses realized on the sale of such securities by the life insurance company governed by the Act respecting Insurance (Québec) are carried in the appropriated surplus account and transferred to income using the straight-line method over a ten-year period.

Gains and losses on securities held by general insurance companies or trust companies are entered directly in the income statement.

Gains and losses on securities held by the company governed by the Canadian and British Insurance Companies Act are amortized to income over the life of the securities or twenty years, whichever is shorter.

Stocks

Stocks held in the Company's portfolio are recorded at market value, as required by the Act respecting Insurance (Québec). Realized and unrealized gains and losses are recorded in the appropriated surplus account and transferred to income using the straight-line method over a ten-year period.

Stocks held by general insurance companies or trust companies are recorded at cost. Gains and losses realized on the sale of such stocks are carried directly to the income statement.

The stocks held in the portfolio of the subsidiary which is governed by the Canadian and British Insurance Companies Act are recorded at cost plus or minus the unamortized portion of gains and losses realized on the sale of such securities. Gains and losses are amortized over a period of approximately seven years, taking into account the difference between market value and cost.

Mortgage loans

Mortgage loans are presented at the amount of the capital balance receivable.

Real estate

Real estate is recorded at cost, net of accumulated depreciation and related mortgage borrowings in the case of that held by the company governed by the Act respecting Insurance (Québec). Depreciation is calculated principally by the sinking fund method at rates varying from 5% to 12.8%.

Policy loans

Policy loans are recorded at cost and are fully covered by the cash surrender value of insurance policies.

Fixed assets

Fixed assets are recorded at historical cost less accumulated depreciation. Depreciation is calculated from the date of acquisition by the straight-line method or the diminishing balance method at annual rates varying from 15% to 30%.

Miscellaneous assets

This item includes deferred costs of certain subsidiaries relative to the development of programmed products, the establishment of branches and their financing. These costs are principally amortized by the straight-line method over periods not exceeding seven years and over the term of the reimbursement of the debts.

It also includes goodwill resulting from the excess of cost of the shares of the subsidiaries over the book value of the net assets acquired; this goodwill is amortized by the straight-line method over periods not exceeding forty years.

Segregated funds

Funds from certain group or individual pension plans are invested in separate portfolios. Their value is determined according to the market value of the securities contained in these portfolios.

Policy reserves

Policy reserves represent the amount which, together with future premiums and investment income, provides for all Company commitments under contracts in force. The policy reserves are established after deducting acquisition expenses which are deferred and amortized over the respective terms of the contracts.

Income taxes

Income taxes are provided for on a "taxes payable" basis for companies insuring persons and under the deferral method for the other companies in the group.

Foreign currencies

All items in U.S. dollars are translated into Canadian dollars at rates determined at the

beginning of the year, using an estimated average rate. The exchange rate on U.S. currency set on January 1, 1987 is CAN \$ 1.30. Gains and losses resulting from a change in the exchange rates are carried to income.

Investment income

Investment income is shown net of related expenses.

3. APPROPRIATED SURPLUS

	December 31 1987	January 1 1987
	\$	\$
Additional reserve for negative reserves and interest deficiency	17 011	19 856
Reserve for fluctuations in market value of investments	23 000	22 435
Valuation reserve for stocks and deferred capital gains and losses realized on bonds and stocks	45 115	70 695
	<u>85 126</u>	<u>112 986</u>

4. BONDS

Bonds are detailed as follows:

	December 31 1987	January 1 1987
	\$	\$
Presented at cost, adjusted by the amortization of premiums and discounts (market value \$1 357 207 and \$816 675)	1 334 127	740 931
Presented at cost, adjusted by the amortization of premiums and discounts and modified by the unamortized realized gains and losses (market value \$82 692 and \$92 399)	82 300	87 606
	<u>1 416 427</u>	<u>828 537</u>

5. STOCKS

The stock portfolio is detailed as follows:

	December 31 1987	January 1 1987
	\$	\$
Presented at market value (cost \$206 218 and \$246 959)	209 495	324 638
Presented at cost, modified by the unamortized realized gains and losses (market value \$516 and \$561)	576	659
Presented at cost (market value \$265 794 and \$16 994)	283 036	16 651
	<u>493 107</u>	<u>341 948</u>

6. REAL ESTATE AND FIXED ASSETS

Real estate, totalling \$231 431 is presented net of \$12 844 in accumulated depreciation, \$2 848 of which is attributable to the current year.

The principal fixed asset categories are furniture and fixtures, data processing equipment and leasehold improvements. Their cost is \$85 834 and accumulated depreciation amounts to \$47 880 of which \$8 509 is attributable to the current year.

7. MISCELLANEOUS ASSETS

This item consists of the following assets, related to the subsidiaries:

	December 31 1987	January 1 1987
	\$	\$
Goodwill	129 662	3 421
Deferred expenses	12 923	11 817
Other	71 715	52 620
	<u>214 300</u>	<u>67 858</u>

Amortization for the year amounts to \$3 668.

8. GUARANTEED DEPOSITS

As of December 31, 1987, investments in the amount of \$3 771 262 are held expressly to guarantee these deposits.

9. LONG-TERM DEBTS

These debts are related to subsidiaries and comprise the following:

	December 31 1987	January 1 1987
	\$	\$
Subordinated notes, "C" and "D" Series, variable rates, maturing in 1995 and 2010, redeemable or convertible under certain conditions	50 000	
Debentures, 9% ^{3/8} %, maturing in January 1992, subject to a 7-year extension at 9% ^{3/8} %	49 500	
Mortgage loan, 9%, reimbursable in monthly instalments, maturing in 1996	9 186	9 295
Obligations under capital leases	5 361	8 925
Advances, prime rate less 1%, from the minority shareholder of a subsidiary, subject to subordination in favor of a bank, without fixed term of repayment	3 570	3 570
Balance of purchase price, 12%, secured by mortgage, maturing in March 1989	496	
	<u>118 113</u>	<u>21 790</u>

10. BUSINESS COMBINATION

During the year, through one of its subsidiaries, the Company purchased additional common shares of General Trustco of Canada Inc., bringing its holding to almost 63% of that company's outstanding capital stock.

This acquisition, accounted for by the purchase method, since mid-september 1987, was recorded as follows:

Assets acquired	\$ 4 143 049
Liabilities assumed	(3 797 390)
Minority interest	(114 558)
Existing interest	(95 826)
Paid to third parties of which \$79 237 represents goodwill	<u>135 275</u>

VALUATION ACTUARY'S REPORT

I have made the valuation of the actuarial liabilities of Industrial-Alliance Life Insurance Company for the purpose of its consolidated balance sheet as of December 31, 1987, and its consolidated statement of income for the year then ended. In my opinion, the valuation for Industrial-Alliance Life Insurance Company conforms to the Recommendations of the Canadian Institute of Actuaries for Insurance Company Financial Reporting. I have relied upon the valuation made by the actuary of The North West Life Assurance Company of Canada. In my opinion,

- i) the amounts for actuarial liabilities make proper provision for the future payments under the Companies' contracts;
- ii) proper charges on account of those actuarial liabilities have been made in the consolidated statement of income, and
- iii) the amount of surplus appropriated for policies whose reserves are negative is proper.



Léon Mondoux, F.S.A., F.C.I.A.
Vice-President and Valuation Actuary

Montréal, February 15, 1988

AUDITORS' REPORT

We have examined the consolidated statements of income and surplus of Industrial-Alliance Life Insurance Company for the year ended December 31, 1987, and its consolidated balance sheet at that date. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances; we have relied on the opinion of the Company's Valuation Actuary, formulated in his report joined to the consolidated financial statements, as to the amount of the actuarial liabilities.

In our opinion, and according to the opinion of the Valuation Actuary, these consolidated financial statements present fairly the results of operations of the Company for the year ended December 31, 1987, and its financial position at that date in accordance with the accounting principles described in note 2.



Chartered Accountants

Québec, February 15, 1988

MANAGEMENT'S REPORT

The consolidated financial statements of Industrial-Alliance Life Insurance Company and the financial information contained in this Annual Report are the responsibility of the Company's Management and have been approved by the Board of Directors. These financial statements have been prepared in accordance with the accounting principles described in the accompanying notes and, in certain cases, contain amounts based on best judgment and estimates.

The Company employs an adequate system of internal controls and auditing, within acceptable cost limits. The purpose of these mechanisms is to provide a reasonable degree of certainty that financial transactions are properly recorded and executed with the required authorizations, that the consolidated financial statements are properly prepared and assets well protected.

The Board of Directors carries out its responsibility in regard to the consolidated financial statements contained in this Annual Report primarily through its Audit Committee. This Committee is made up exclusively of Directors from outside the Company and meets periodically 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,



Robert Bégin, F.S.A., F.C.I.A.
President and Chief Executive Officer

Québec, February 25, 1988

**CONSOLIDATED FINANCIAL STATEMENTS
OF THE MUTUAL LIFE INSURANCE COMPANY**

INCOME

Year ended December 31, 1987

(in thousands of dollars)

Income

	\$
Premiums	474 599
Net investment income	237 788
Contributions to employees' pension fund	4 369
	<hr/> 716 756

Appropriation of income

Normal increase in policy reserves	150 648
Claims incurred	317 380
Dividends and group experience refunds	11 025
Interest credited to amounts on deposit	4 559
Commissions	46 943
Taxes, licences and fees	5 423
General expenses	66,491
Payments from and increase in employees' pension fund	12 691
Segregated funds and miscellaneous	72 562
	<hr/> 687 722
Net income for the year	<hr/> 29 034

SURPLUS

Year ended December 31, 1987

(in thousands of dollars)

Appropriated surplus

	\$
Balance resulting from the merger	112 986
Changes in additional reserves	(2 280)
Changes in valuation reserve for stocks and deferred capital gains and losses realized on bonds and stocks	(25 580)
Balance at end	<hr/> 85 126

Unappropriated surplus

Balance resulting from the merger	197 969
Net income for the year	29 034
Changes in valuation of policy reserves	(3 922)
Transfer from appropriated surplus for additional reserves	2 280
Balance at end	<hr/> 225 361

BALANCE SHEET
(in thousands of dollars)

ASSETS	As of December 31	As of January 1
	1987	1987
	\$	\$
Bonds	656 935	719 498
Stocks	212 245	324 638
Mortgage loans	1 053 725	906 278
Real estate	98 591	96 545
Policy loans	35 861	38 142
Short-term investments and cash	3 992	65 094
Subsidiaries	318 221	60 741
Investment income due	28 514	29 876
Outstanding premiums	12 769	11 173
Amounts receivable	8 716	3 587
Income taxes recoverable	887	2 522
Miscellaneous	8 735	16 003
Segregated funds	206 311	150 622
	2 645 502	2 424 719
LIABILITIES		
Policy reserves	1 912 694	1 758 125
Provision for dividends and group experience refunds	12 158	12 097
Provision for unreported claims	9 088	13 631
Employees' pension and insurance funds	82 317	74 530
Amounts on deposit	51 054	51 590
Premiums paid in advance	8 359	9 228
Other contractual liabilities	1 994	3 633
Unsettled claims	11 475	4 638
Accounts payable	15 539	12 312
Bank overdrafts and loans	6 264	6 940
Miscellaneous	17 762	16 418
Segregated funds	206 311	150 622
	2 335 015	2 113 764
POLICYHOLDERS' EQUITY		
Surplus — appropriated	85 126	112 986
— unappropriated	225 361	197 969
	310 487	310 955
	2 645 502	2 424 719

AUDITORS' REPORT

As auditors of Industrial-Alliance Life Insurance Company, we have examined the nonconsolidated financial statements as of December 31, 1987, and have issued, on

February 12, 1988, an unqualified report on these statements. We have relied on the opinion of the Company's Valuation Actuary as to the amount of the actuarial liabilities.

The nonconsolidated statements of income and surplus of the Company and its nonconsolidated balance sheet as of December 31, 1987, are extracted from the Company's nonconsolidated

financial statements and present fairly the figures they contain.

**Samson
Bélair**
Chartered Accountants

Québec, February 12, 1988

MANAGEMENT

Hervé Belzile, F.C.A.

Chairman of the Board

Robert Bégin, F.S.A.

President and Chief Executive Officer

J. Marcel Boyer, C.A.

Executive Vice-President and
Assistant to the President

Yvon Côté, CFA

Vice-President and General Manager
and Assistant to the President

Alex Langlois, F.S.A.

Vice-President and General Manager,
Actuarial and Group

Jacques Laverdure, C.A.

Senior Vice-President, Investments

André Mailhot, L.L.L.

Vice-President and General Manager,
Human Resources

Normand Pépin, F.S.A.

Vice-President and General Manager,
Marketing

P.-Émile Reinhardt, CFA

Vice-President and General Manager,
Investments

Adrien Bordua, LL.L.

Vice-President,
Legal Affairs

P.-E. Burelle

Vice-President, Sales,
Career Agencies

Michel Gauthier, C.M.A.

Vice-President,
Data Processing

Maurice Germain, F.S.A.

Vice-President,
Actuarial Services

Donald C. Harding

Vice-President, Sales, Ontario

Cyrille Jutras, F.S.A.

Vice-President,
Administration

Jacques Lorange, C.A.

Vice-President, Control

Robert Mailloux

Vice-President,
Real Estate Investments

Léon Mondoux, F.S.A.

Vice-President and
Valuation Actuary

Yvon Sauvageau, Sc.Econ.

Vice-President,
Securities

Gaëtan Audet, C.L.U.

Director, Agents' Training

Daniel Bannon, A.S.A.

Director, Group Pensions

Bernard Bazinet

Director, Agencies
Administrative Services

André Blais

Director, Claims,
Group Insurance

Roger Blais, F.I.M.I.

Director,
Life and Health Claims

André Blouin

Director, Claims,
General Insurance

Pierre Blouin, L.Sc.Adm.

Superintendent, Sales

Lauréat Boily

Director, Administration,
Securities Portfolio

Jean-Pierre Boutin, I.R.C.

Senior Director,
Human Resources and Technical Operations

Andrée Brunet, B.Sc.Adm.

Director, Real Estate
Development and Promotion

Gaëtan Chalifoux, C.G.A.

Director, Accounting

Yvon Charest, F.S.A.

Assistant Vice-President,
Administration

Paul-H. Chrétien, C.M.A.

Director, Accounting

Gilles Cloutier, B.Sc.A.

Director, General and Group
Insurance Systems

Rodrigue Cloutier
Director, Supportive
Administrative Services

Réjean Devin, B.Sc.Phys.
Director, Technical Services
and Production Control

Raymond Donnelly
Senior Director,
Regional Administrative Offices
and Agencies Administrative Services

Jean Dorion, C.App.
Senior Director,
Mortgage Loans

Louis Duclos, M.B.A.
Assistant Vice-President,
Communications and Administrative Services

Claude E. Dufresne
Senior Director, Internal Auditing

Lucienne Forbes, LL.B.
Associate Legal Counsel

Jean-Guy Fortier, F.L.M.I.
Director, Policy Records
and Premium Collection

Jean-Baptiste Fortin, F.L.M.I.
Director, Administration,
Mortgage Loans

Marcel Gagné, F.S.A.
Senior Director,
Group Annuities

Valmont Garneau, B.Com.
Senior Director,
Accounting Services

Jocelyne Gaudet
Director, Contracts,
General Insurance

Laurent Gilbert
Director, Underwriting,
Mortgage Loans

Jocelyne G. Gravel
Director, Underwriting,
General Insurance

François Harvey, C.A.
Director, Internal Auditing

Madeleine Jacob, D.D.N.
Associate Legal Counsel

Richard Jalbert
Superintendent, Sales

Marc Lalonde
Superintendent, Sales

Richard Lauzon
Director, New Business

Jean-Marc Lavoie, F.L.M.I.
Senior Director, Sales
Personnel Remuneration

Yvon Lavoie, L.Sc.Adm.
Director, Individual Life Systems

Claude Lemieux
Director, Underwriting

André Marceau
Director, Sales Secretariat

Daniel Marceau, F.S.A.
Director, Actuarial Department

Georges Marcotte
Superintendent, Sales

Bertin Michaud
Superintendent, Sales

Hermann Morissette, A.S.A.
Director, Taxation

Joe O'Farrell, C.M.A.
Senior Director, Human Resources

Jean-Pierre Papineau, C.L.U.
Senior Director, Securities Portfolio

René Paré, F.L.M.I.
Superintendent, Sales

Marc Pelletier
Director, Sales
Management Training

Laurent Perreault, F.L.M.I.
Director, Administration,
Group Insurance

Yves Piette, M.D.
Medical Director

Guy Pilote
Director, Policy Contracts,
Individual Insurance

Sheila Quinn, F.S.A.
Actuary, Individual Insurance

Marc Renaud
Senior Director, Office and
Supportive Administrative Services

Gaston Rivard
Director, Agencies
Administrative Services

Stéphane Rivard LL.L.
Associate Legal Counsel

Jacques Simard
Director, Sales Personnel Remuneration

Pierre Simard, B.Com.
Director, Internal Auditing

Pierre St-Germain, C.L.U.
Superintendent, Sales

Richard St-Laurent, C.A.
Director, Taxation

Jacques Taché, LL.L.
Senior Director, Legal Affairs

Claude Tessier, B.Sc.A.
Assistant Vice-President,
Real Estate

Raymond Tremblay, B.Com.
Senior Director, Group Insurance

Michel Turcotte, F.S.A.
Senior Director, Annuities

Richard Watier, L.Sc.Adm.
Senior Director, Research and
Development, Marketing

SERVICE NETWORK

AGENCY

Québec

Abitibi-Témiscamingue

20 Gamble St. W., Rouyn J9X 2R2
** Benoît Côté

Anjou

7777 Louis-Hippolyte Lafontaine,
Anjou H1M 4E4
** Serge Aubry, C.L.U.

Beaubien

4570 Jean-Talon St. E., St-Léonard H1S 1K2
* André Sagala, C.L.U.

Beaugrand

5125 du Trianon St., Montréal H1M 2S5
* Raynald Nadeau, C.L.U.

Cartier

550 Chambly Road, Longueuil J4H 3L8
* Roland Larocque

Champlain

1680 Provencher Blvd., Brossard J4Z 1A6
* Donald Seward

Chauveau

8500 Henri-Bourassa Blvd.,
Charlesbourg G1G 5X1
* Michel Ouellet

Chicoutimi

345 des Saguenéens St., Chicoutimi G7H 6K9
* P.-H. Tremblay, C.L.U.

Alma

425 Sacré-Coeur St. W., Alma G8B 1M4
Dolbeau
335 8th Avenue, Dolbeau G8L 1M4

Granby

183 Principale St., Granby J2G 2V5
* Roger Champagne, C.L.U.
Beloil
535 Laurier Blvd., Beloil J3G 5E9

Hull

768 St-Joseph Blvd., Hull J8Y 4B8
* Robert Gagnon, C.L.U.
Ottawa
328 Montréal Road, Ottawa K1L 8K8

Labelle

11 Principale St. N., L'Annonciation J0T 1T0
** Léo Doucet

Lanaudière

100 Grenier St., Charlemagne J5Z 4C6
* René Désy, C.L.U.
Joliette
28 du Golf Road, Joliette J6E 2B4

Langelier

7333 des Roseaies St., Anjou H1M 2X6
* Michel Carrière

Laval

1600 St-Martin Blvd. E., Laval H7G 4R8
* Hubert Poitras, C.L.U.

Lemoyne

6185 Taschereau Blvd., Brossard J4Z 1A6
** Jacques L'Écuyer, C.L.U.

L'Estrie

3395 King St. W., Sherbrooke J1L 1P8
** Léon Gaudreault

Lévis

91 St-Georges St. W., Lévis G6V 4K8
* Jean-Paul Deschênes

Mauricie

4320 Royal Blvd., Shawinigan G9P 3T5
* Robert Ménard, C.L.U.
Grand-Mère
555 7th Street, Grand-Mère G9T 4N1
Louiseville
255 St-Laurent St., Louiseville J5V 1K2

Mercier

2074 Thierry St., LaSalle H8N 2N8
* Bernard St-Jacques

Montréal-Centre

1212 Jean-Talon St. E., Montréal H2R 1W2
** Richard Lefebvre

Montréal Rive-Sud

1570 Provencher Blvd., Brossard H4W 2T8
* Guy Carignan
St-Jean
320 du Séminaire Blvd., St-Jean J3B 5K9

Mont-Royal

50 Place Crémazie W., Montréal H2P 2T6
** Marcel Alarie, C.L.U.

Québec

4635 1st Avenue, Charlesbourg G1H 2T1
* Pierre Gingras, C.L.U.

Québec-Centre

2700 Laurier Blvd., Ste-Foy G0M 1V0
** Ben Bouchard, C.L.U.

Québec-Laurier

1400 St-Jean-Baptiste St., Québec G2E 5B7
* Roland Dubeau, C.L.U.

Rimouski-Gaspé

2 St-Germain St. E., Rimouski G5L 1A1
* Jacques H. Mercier, C.L.U.
Matane
305 de la Gare St., Matane G4W 3J2
Rivière-du-Loup
445 Lafontaine St., Rivière-du-Loup G5R 3C1

Rouillard-Spécial

155 125th St., Shawinigan G9P 3T5
** Adelphas Rouillard, C.L.U.

St-Denis

1115 Louvain St. E., Montréal H2M 2E6
* Adrien Toulouse, C.L.U.

St-Hyacinthe

1050 Casavant Blvd., St-Hyacinthe J2S 8B9
* Roger Landry, C.L.U.
Sorel
67 Georges St. W., Sorel J3P 1C2

St-Jérôme

222 St-Georges St., St-Jérôme J7Z 4Z9
* Claude Beauchamp
Duvernay
3100 de la Concorde Blvd.,
Duvernay H7E 2B8

St-Lambert

475 Victoria St., St-Lambert J4P 2J1
** J.-Claude Dufresne

St-Laurent

100 Alexis-Nihon Blvd., St-Laurent H4M 2N6
* Fernand Fortier, C.L.U.

St-Martin

1717 St-Martin Blvd. W., Laval H7S 1X2
* Gilles Beauchamp

Ste-Foy

3700 du Campanile St., Ste-Foy G1X 4G6
* Jacques Richard

Sherbrooke

2910 Portland Blvd., Sherbrooke J1L 1T1
2100 King St. W., Sherbrooke J1J 2E8
* Réjean Fortier

Thetford-Mines

222 Smith Blvd., Thetford-Mines G6G 6X7
* Viateur Landry
Drummondville
150 Marchand St., Drummondville J2C 4N1
Victoriaville
19 Decoursol St., Victoriaville G6P 3Y9

Trois-Rivières

300 Barkoff St., Cap-de-la-Madeleine G8T 2A3
* Michel Morrissette

Valleyfield

85 Victoria St., Valleyfield J6S 1E7
 *Jules E. Charbonneau
 Châteauguay
 65 St-Jean-Baptiste Blvd.,
 Châteauguay J6J 3H5
 Cornwall
 4 Montréal Road, Cornwall K6H 1B2

Ville-Marie

100 Alexis-Nihon Blvd., St-Laurent H4M 2N6
 **Joseph Assayag, C.L.U.

Ontario**Al G. Brown**

825 Eglinton Ave W., Toronto M5N 1E7
 **Al G. Brown, C.L.U.

Brantford

38 Darling St., Brantford N3T 5T6
 **Kenneth Gordon

Eglinton

160 Eglinton Ave E., Toronto M4P 3B5
 **Murray Tenebaum, C.L.U.

Guelph

2455 Cawthra Road, Mississauga L5A 3P1
 **Nu-World Dynamic Insurance
 Agencies Inc.

**J.C. Gauthier Insurance
Broker & Associate Inc.**

428 Rideau St., Ottawa K1N 5Z2
 **J.C. Gauthier

London North

1855 Aldersbook, London N6G 3S3
 **Kenneth Tayler, C.L.U.

Metro-East

610 Finley Ave., Ajax L1S 2E3
 **Jesse K. Van Nest

Metro-Toronto

160 Eglinton Ave. E., Toronto M4P 3B5
 *Jacques Clermont

Niagara

206 Richmond St., Thorold L2V 4L8
 **Rick Smolak

North York

83 Main Street W., Stouffville L0H 1L0
 **David Blow

Rockland

775 St-Joseph St., Rockland K0A 3A0
 **André Hamon

Stephen Wise Insurance

103 Meadowbrook Drive, London N6L 1E3
 **Stephen Wise

Timmins

7 Balsam St. S., Timmins P4N 2C7
 **Roger L. Piquette

Toronto North

100 Steelcase Road E., Markham L3R 1E8
 **Syd Sands

New-Brunswick**Exton**

5614 Fenwick Street, Halifax B3H 1P9
 **Randall E. Croft

Madawaska

25 St-Joseph St., St-Jacques E0L 1K0
 **Jeannot Turgeon

Maritimes

141 Weldon, Moncton E1C 5W1
 **Michel Migneault

*Directors
 **General Agents

Regional Administration Offices**Montréal**

680 Sherbrooke St. W., Montréal H3A 2S6
 Roland Bonenfant, Director

Québec

1080 St-Louis Road, Sillery G1K 7M3
 Robert Dionne, Director

Toronto

160 Eglinton Ave. E., Toronto M4P 3B5
 Liliane Kvarv, Director

Mortgage Loans**Montréal**

680 Sherbrooke St. W., Montréal H3A 2S6
 Noël Guilbault, C. Adm., Director

Québec

1080 St-Louis Road, Sillery G1K 7M3
 Jean Trahan, C. app., Director

Group Pensions**Montréal**

680 Sherbrooke St. W., Montréal H3A 2S6
 Kevin Conroy, Director

Québec

3730 du Campanile St., Ste-Foy G1X 4G6
 Raynald Winstall, C.L.U., Director

Toronto

160 Eglinton Ave. E., Toronto M4P 3B5
 Kevin Conroy, Director

Group Life and Health Insurance

Place du Canada, Bureau 2700
 Montréal, Québec H3B 4N9

Yvon Langlois, President

SALES OFFICES**Montréal**

300 Léo Pariseau St., Bureau 1000,
 Montréal H2W 2P4
 Denis De Bellefeuille
 National Sales Director
 Maurice Lafoley
 Regional Sales Director

Standard Life/Industrial-Alliance Services**Québec**

3700 du Campanile St., Bureau 107,
 Ste-Foy G1X 4G6
 Jacques Brière
 Regional Sales Director

Toronto

401, Bay St., Suite 1200, Toronto M5H 2Y4
 David S. Kent
 National Sales Director
 Michael L. Schwartzkopf
 Regional Sales Director

Vancouver

625 Howe St., Suite 1250,
 Vancouver V6C 2T6
 David W. McAdam
 Regional Sales Director



595 Howe Street
 Vancouver, British Columbia
 V6C 2T5

John B. Gill, M.B.A.

President and Chief Executive Officer

Donald R. Francis, F.S.A.

Executive Vice-President and
 Chief Actuary

Ronald W. Pepper, A.S.A.

Senior Vice-President, Marketing

Hugh J. McKay, C.A.

Vice-President, Finance

Arthur W. Putz, C.G.A.

Vice-President, Investments and
 Secretary

Dennis C. Sallaway, U.P.

Assistant Vice-President,
 Underwriting

Zul Mohamed, F.S.A.

Assistant Vice-President, Actuarial
 and Data Processing Services

Subsidiary:

The North West Life Assurance
 Company of America

**THE NORTH WEST LIFE ASSURANCE COMPANY
 OF CANADA**

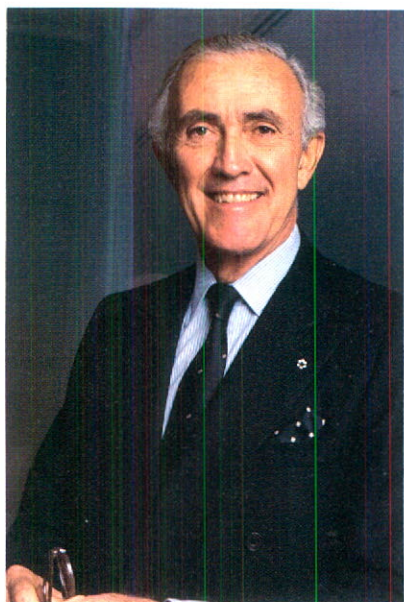
**Condensed Consolidated Financial Statements
 as of December 31, 1987**

Income	
	\$
Premiums	42 251 490
Net investment income	40 792 857
	<u>83 044 347</u>
Claims incurred	54 332 553
Increase in policy reserves	15 092 770
Commissions	6 713 151
Administrative expenses and taxes	7 671 952
Income taxes	(94 720)
	<u>83 715 706</u>
Net loss before extraordinary item	671 359
Write down and losses on sales of investments	166 243
Net loss	<u><u>837 602</u></u>

Balance sheet	
Bonds	93 771 947
Stocks	576 419
Mortgage loans	231 770 701
Policy loans	42 165 910
Short-term investments	31 359 251
Other assets	21 894 069
Segregated funds	728 927
Total assets	<u><u>422 267 224</u></u>
Policy reserves	355 413 600
Other liabilities	39 304 793
Segregated funds	723 113
Capital stock	11 870 740
Retained earnings	14 954 978
Total liabilities and equity	<u><u>422 267 224</u></u>

ALLIANCE-INDUSTRIAL
FINANCIAL CORPORATION

DIRECTORS' REPORT



André Charron, Q.C., C.M.
Chairman of the Board



Jean Denis Vincent
President and Chief Executive Officer

On December 31, 1987, Alliance-Industrial Financial Corporation ended its first year of operation. In keeping with the current trend toward the integration of financial institutions, Industrial-Alliance Life Insurance Company delegated to this holding the control of all its non-life insurance subsidiaries and investments. During this first year, the Financial Corporation focused primarily on fulfilling its initial mandate: to help develop and administer the affiliated companies and consolidate its position in certain sectors of the financial services industry.

Through its investments, the Alliance-Industrial Financial Corporation occupies an important and strategic place in four sectors: trusts, general insurance, data processing and investment counselling and management.

The Financial Corporation endeavoured to set up management policies suited to the new corporate structure and that will ensure the sound administration of the Financial Corporation and its affiliates for the well-being of its shareholder and its shareholder's insureds. In addition, this first year of operation served to introduce our group to the financial community.

The highlight of 1987 was the purchase, in September, of 10 593 125 common shares of General Trustco of Canada Inc. in a public take-over bid on the Montréal Stock Exchange. This purchase of some \$127 million allowed the Financial Corporation to raise its stake to almost 63% of the capital stock of General Trustco of Canada Inc., which ranks sixth among Canadian trust companies. The Financial Corporation also purchased a 20.5% share in an important Canadian portfolio management company, TAL Investment Counsel Ltd., which administers assets of \$2.3 billion.

At the same time, considerable energy was expended in analyzing the strategic and financial situation of the Financial Corporation's other affiliates, namely in the sectors of general insurance (Equitable and Industrial-Alliance General) and data processing (I.S.T.).

FINANCIAL RESULTS

As regards the financial results, net profits, after taxes and extraordinary items, totalled \$12 million and the consolidated income stood at \$240.8 million. Consolidated assets amounted to close to \$4.4 billion and the shareholder's equity to \$271.9 million. All the subsidiaries and investments of the Financial Corporation contributed favourably to these results.

MAIN SPHERES OF OPERATION

Trust

The trust sector is well-represented in our group through General Trustco of Canada Inc., a holding that controls companies working primarily in the traditional trust sector. Most of General Trustco's income is generated by these operations. The assets administered by all these companies exceed \$11.3 billion, of which \$4.1 billion constitute the company's assets and \$7.2 billion those administered for third parties. Over 2,100 employees work in the 80 Québec and Ontario offices of General Trustco Inc. and its affiliates. The companies affiliated with General Trustco are General Trust of Canada, Sherbrooke Trust, Sterling Trust (in Ontario), Gentrust Investment Counsellors, General Trust Realtor and Natco Developments Ltd.

The group is also very active in the mortgage loan sector. At present, it administers almost \$3.5 billion in mortgage funds, of which \$2.6 billion are invested for its own account. This high-quality mortgage loan portfolio is made up of 44 000 mortgages in Québec and Ontario.

Affiliates of General Trustco are also active in consumer loans, business loans, portfolio management and real estate development and brokerage. Member companies operate through a network of branches and offer individuals and companies alike a vast range of financial products and services.

For General Trustco, 1987 was an excellent year, which posted impressive financial results and registered remarkable growth, with net profits for 1987 standing at \$30.8 million as compared with \$21.9 million the previous year. Moreover, the Company is in a strong financial position, as evidenced by its credit rating with specialized firms.

General Insurance

The group's involvement in the general insurance sector dates back to 1972, when The Equitable General Insurance Company and the Provincial Mutual Insurance Company, now Industrial-Alliance General Insurance Company, were purchased. These two companies operate mainly in the individual insurance sector.

From 1986 to 1987, the total amount of gross premiums sold jointly by these two companies increased from \$29.7 million to \$35.2 million, an increase of almost 18%. While they were experiencing rapid growth, these two companies remained profitable in 1987.

At the end of 1987, the combined assets stood at \$42.8 million and the shareholders' equity, including retained earnings, at \$17.2 million. The financial strength of these two companies and the quality of their products and services have earned them the best rating awarded by the Consumers' Association in a survey published in 1987.

Data Processing

The founders of Industrial Life – Technical Services Inc. (I.S.T.) wanted to create a nationwide data processing company. Today, I.S.T. is one of this high-tech industry's major players. The quality of its data processing equipment and the caliber of its personnel have enabled it to tailor its operations to the expanding market with no downturn in sales, despite smaller income from government contracts, particularly from the Federal Government.

I.S.T.'s income attained \$56.8 million in 1987, up slightly from last year: the net profit stood at \$429 000, a remarkable turnaround for this company. It is important to note that during the past few years, I.S.T. only capitalized a small proportion of its development expenses, although a large part of its income was earmarked for financing the development of new software packages. Cash flow from operations, profit and depreciation totalled \$7.8 million.

The Company holds a very large share of the information processing market in the health care sector. Based on the number of institutions served, I.S.T. is in top position in Québec and among the leaders in Ontario.

I.S.T.'s data processing services are slowly being outpaced by its systems and technology integration services, which are becoming increasingly profitable. This allows I.S.T. to offer services with a higher added value and a greater profit margin.

The group is now ready to meet tomorrow's challenge head-on, both for the group's member companies and for all other users of data processing services.

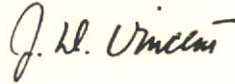
ORIENTATION

In 1988, the Financial Corporation will focus its efforts on consolidating and orienting the operations of the general insurance and information processing sectors. As in 1987, we will continue to promote relations among our various affiliates. We believe that an important aspect of the Financial Corporation's mandate is to tighten the bonds that unite the various participants under its leadership or in its network. We can look to the future with confidence.

Since its creation, the Financial Corporation has benefitted from the experience and steadfast support of its directors and of its shareholder, Industrial-Alliance Life Insurance Company. We would like to take this opportunity to thank, in particular, Mrs. Marie-Josée Drouin who unfortunately had to step down from the Board. All through this first year, the staff of the Financial Corporation and its affiliates spared no effort. We would like to thank them sincerely for their support and dedication.



André Charron, Q.C., C.M.
Chairman of the Board



Jean Denis Vincent
President and
Chief Executive Officer

BOARD OF DIRECTORS

André Charron, Q.C., C.M.
Chairman of the Board of the Company
Chairman of the Board
Lévesque, Beaubien Inc.

Robert Bégin, F.S.A.
Vice-Chairman of the Board of the Company
President and Chief Executive Officer
Industrial-Alliance
Life Insurance Company

Jean Denis Vincent
Vice-Chairman of the Board of the Company
President and Chief Executive Officer
Alliance-Industrial
Financial Corporation

Ernest G. Ayers
President
Ayers Limited

Hervé Belzile, F.C.A.
Chairman of the Board
Industrial-Alliance
Life Insurance Company

Jean Deschamps
President and General Manager
Olympic Installations Board

André Dion, C.A.
President
Groupe RO-NA

Reginald K. Groome, O.C.
Chairman of the Board and President
Hilton Canada Inc.

Pierre Laurin, O.C.
Senior Vice-President and
General Manager for Québec
Merrill Lynch Canada Inc.

Jean Marier, LL.M.
Partner of Stein, Monast,
Pratte and Marseille, Advocates

J. Robert Ouimet
President
Ouimet-Cordon Bleu Inc.

J. Frank Roberts
Administrator of Companies

Raymond Sirois, M.Sc.C
Chairman of the Board,
President and Chief Executive Officer
Québec-Téléphone

BOARD COMMITTEES

Executive Committee
Robert Bégin — Chairman
Hervé Belzile
André Charron
Pierre Laurin
Raymond Sirois
Jean Denis Vincent

Human Resources Committee
André Charron — Chairman
Robert Bégin
Hervé Belzile
André Dion
J. Robert Ouimet
J. Frank Roberts
Jean Denis Vincent

Audit Committee
Reginald K. Groome — Chairman
Ernest G. Ayers
Jean Deschamps
Jean Marier
Jean Denis Vincent

Adrien Bordua, LL.L.
Secretary of the Board

SENIOR MANAGEMENT

Jean Denis Vincent
President and Chief Executive Officer

Jacques Dumont, CFA
Senior Vice-President

Georges Smith, LL.L.
Senior Vice-President

Head Office:
Industrial Life Tower
2000 McGill College Avenue
Montréal, Québec
H3A 3H5

CONSOLIDATED FINANCIAL STATEMENTS
OF ALLIANCE-INDUSTRIAL
FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEET

As of December 31, 1987

(in thousands of dollars)

ASSETS	1987
	\$
Cash and short-term investments	349 765
Securities	
Bonds (market value: \$665 473)	671 470
Shares (market value: \$265 794)	283 036
Mortgage loans	2 604 954
Other loans	177 690
Real estate held for sale	16 702
Properties	43 410
Amounts receivable	34 151
Fixed assets	30 421
Goodwill	126 427
Other items	20 680
	4 358 706
<hr/>	
LIABILITIES	
Guaranteed deposits	3 771 262
Other items	
Bank loan	2 270
Amounts payable and accrued liabilities	41 217
Unearned premiums	16 180
Long-term debt and subordinated notes	124 317
Deferred income taxes	13 415
Minority interest	118 147
	4 086 808
<hr/>	
SHAREHOLDER'S EQUITY	
Capital stock	218 616
Contributed surplus	39 353
Retained earnings	13 929
	271 898
	4 358 706

On the behalf of the Board:

André Charron, Director

Jean Denis Vincent, Director

CONSOLIDATED CHANGES IN FINANCIAL POSITION

Year ended December 31, 1987

(in thousands of dollars)

OPERATIONS		1987
		\$
Income before extraordinary items	10 652	
Non-cash items		
Depreciation and amortization	10 215	
Interest in companies subject to significant influence	(6 333)	
Net changes in other non-cash items	3 945	
Source of cash	18 479	
FINANCING		
Guaranteed deposits	119 539	
Instalments on long-term loans	(4 612)	
Dividends paid by a subsidiary to minority interest	(4 173)	
Issue of common shares	257 469	
Source of cash	368 223	
INVESTMENT		
Securities	86 014	
Mortgage loans	(259 106)	
Other loans	(22 670)	
Properties and real estate held for sale	(5 971)	
Addition to fixed assets	(4 573)	
Disposal of a building	3 000	
Funds generated by the acquisition of subsidiaries	164 164	
Use of cash	(39 142)	
Increase in cash	347 560	
Cash position, beginning of year	(65)	
Cash position, end of year	347 495	
Cash position		
Cash and short-term investments	349 765	
Bank loan	(2 270)	
	347 495	

CONSOLIDATED INCOME
Year ended December 31, 1987
(in thousands of dollars)

REVENUES	1987
	\$
Securities	50 621
Loans	84 974
Fees	8 614
Real estate commissions	8 796
Net premiums	30 235
Data processing services, consultations and other revenues	57 633
	240 873
<hr/>	
EXPENSES	
Interest	102 351
Salaries and other employee benefits	41 021
Commissions	12 818
Premises and equipment expenses	11 297
Provision for losses	757
Claims and settlements	21 590
Other operating expenses	35 756
	225 590
Income before income taxes, minority interest and extraordinary item	15 283
Income taxes	(556)
Minority interest	(4 075)
Gain on sale of a building	1 388
Net income	12 040

CONSOLIDATED CONTRIBUTED SURPLUS AND RETAINED EARNINGS

Year ended December 31, 1987

(in thousands of dollars)

CONTRIBUTED SURPLUS		1987
		\$
Amount attributed to contributed surplus following the acquisition of interest in companies	.55	353
Dividends from contributed surplus	.16	000
Balance, end of year	.39	353

RETAINED EARNINGS		
Balance, beginning of year	.1	889
Net income	.12	040
Balance, end of year	.13	929

AUDITORS' REPORT

To the policyholders of
Industrial-Alliance Life Insurance Company,

At the request of the shareholder, we have examined the consolidated balance sheet of the Alliance-Industrial Financial Corporation as at December 31, 1987 as well as the consolidated statements of earnings, contributed surplus, retained earnings and changes in cash resources for the year then ended, in

accordance with generally accepted auditing standards.

In our opinion, the information contained in the condensed financial statements, hereto attached, is in accordance with the above-mentioned financial statements from which it was taken.

The condensed financial statements should be read in the light of the annual audited

statements in order to better understand the financial position of the Corporation, its operating results and the changes in its financial position.

Raymond, Chabot, Martin, Paré
Chartered Accountants

Montréal, February 11, 1988

**THE SUBSIDIARIES OF
GENERAL TRUSTCO OF CANADA INC.**

 <p>GENERAL TRUST</p>	<p>This important trust company operates in all the major regions of Québec through a network of 20 branches, providing individuals and companies with financial and trust services. At the end of 1987, the company assets stood at \$2.5 billion. General</p>	<p>Trust had one of the best growth rates in the industry, attaining meanwhile a profitability level that ranks it among the best in Canada.</p>
<p>SHERBROOKE TRUST</p>	<p>The oldest of trust companies in Québec is active in Sherbrooke and the surrounding areas through a network of five branches. The</p>	<p>Company's Head Office recently moved to a new building in Sherbrooke. Assets of Sherbrooke Trust total \$300 million.</p>
<p>STERLING TRUST</p>	<p>With assets exceeding \$1.1 billion, this Company has a growing network of 28 branches in Ontario. Sterling Trust offers a wide range of</p>	<p>financial products and trust services to its clients. Its Head Office is located in Toronto.</p>
 <p>GENERAL TRUST Realtor</p>	<p>General Trust Realtor ranks among the top real estate brokerage companies in Québec. In addition, it provides the following services: property evaluation, property improvement information, advice on</p>	<p>mortgage loans and negotiation of real estate transactions. These services make it one of the most dynamic real estate brokerage firms, with a network of 27 branches and a staff of some 700 employees, including more than 550 agents.</p>
<p>GENTRUST</p>	<p>This Company is specialized in the management of pension and endowment funds as well</p>	<p>as pooled funds. Assets under administration stand at almost \$1.1 billion.</p>
<p>NATCO</p>	<p>This Company is involved in real estate development. It recently completed projects in Sherbrooke and Chicoutimi after the construction of an</p>	<p>office building in Rimouski in 1986. In addition to being a developer, Natco is also involved in the real estate market for its own account.</p>



1100 University Street
 Montréal, Québec
 H3B 2G7

Marcel Cazavan, F.C.A.

Chairman of the Board

Maurice Jodoin, L.Sc.Com., CFA

President and Chief Executive Officer

Maurice Myrand, F.C.A., F.T.I.

Executive Vice-President and Chief
 Operating Officer

Gilles N. Besner, LL.L., F.T.I.

Group Vice-President,
 Branches and Marketing

Pierre Comtois, B.Sc.Com., F.I.C.B.

Group Vice-President, Finance

Richard Halley, C.A.

Group Vice-President, Administration

Jean-Louis Hamel, B.C.L., L.Sc.Com.

Group Vice-President, Real Estate,
 Mortgage and Trust Services

Gilles Séguin, L.Sc.Com., C.A.

Vice-President and Controller

Louise Jolicoeur, LL.L., D.D.N.

Corporate Secretary

GENERAL TRUSTCO OF CANADA INC.
 Condensed Consolidated Financial Statements
 as of December 31, 1987
 (in thousands of dollars)

Income	
	\$
Securities	144 196
Loans	266 466
Fees and real estate commissions	61 902
	<u>472 564</u>
Interests	331 310
Salary and other benefits	40 511
Real estate commissions	25 927
Other operation expenses	40 249
Income taxes	3 767
	<u>441 764</u>
Net income	<u>30 800</u>

Balance sheet	
Short-term investments and cash	341 038
Securities	922 302
Mortgage loans	2 602 702
Other loans	177 690
Other assets	96 137
Total assets	<u>4 139 869</u>
Guaranteed deposits	3 771 262
Long-term debt and subordinate notes	105 000
Other liabilities	39 451
Capital stock	108 024
Contributed surplus	40 536
Retained earnings	75 596
Total liabilities and equity	<u>4 139 869</u>

Total assets under management: \$11.3 billion.

The Annual Report of this public company listed on the Montréal Stock Exchange and the Toronto Stock Exchange can be obtained from the Secretary of the Company.



1611 Grémazie Blvd. East
Montréal, Québec
H2M 2P2

André Thompson, Adm. A.

President

Paul Pleau, C.A.

Senior Vice-President,
Healthcare Group

Richard Gervais

Vice-President, Business Development

Jacques Rancourt, M.B.A.

Vice-President, Corporate Services

Gérard Milandre, M. Sc.

Vice-President,
Information Management – Montréal

Subsidiaries:

IST – Healthcomp Inc.
IST – Informatèque Inc.
IST – Santé Inc.
Société Informas du Québec (S.I.Q.) Inc.

INDUSTRIAL LIFE-TECHNICAL SERVICES INC.
Condensed Consolidated Financial Statements
as of November 30, 1987

Income	
	\$
Data processing services	41 011 490
Management and consulting fees	5 099 566
Other income	10 722 196
	<hr/>
	56 833 252
Operation	47 094 144
Depreciation	7 471 133
Financial expenses	1 737 905
	<hr/>
	56 303 182
Net income before income taxes, minority interest and extraordinary item	530 070
Income taxes	(294 982)
Minority interest	(56 499)
Extraordinary item	251 214
Net income	<hr/>
	429 803

Balance sheet	
Current assets	13 669 954
Fixed assets	9 056 055
Investments	190 000
Other assets	9 873 076
Total assets	<hr/>
	32 789 085
Current liabilities	9 304 071
Current portion of long-term debt	3 861 480
Long-term liabilities	7 841 854
Minority interest	498 924
Capital stock	19 476 873
Deficit	(8 194 117)
Total liabilities and equity	<hr/>
	32 789 085

INDUSTRIAL-ALLIANCE

General Insurance Company

1080 St-Louis Road
Sillery, Québec
G1K 7M3

Georges Smith, LL.L.

Acting President

Gilles Duchesneau, M.B.A.

Senior Director

THE EQUITABLE

GENERAL INSURANCE COMPANY

200 St-Jacques Street West
Montréal, Québec
H2Y 1M2

Georges Smith, LL.L.

Acting President

Jacques Chabot, C.A.

Vice-President, Control

Réal Payette, A.I.I.C.

Vice-President, Marketing

INDUSTRIAL-ALLIANCE GENERAL INSURANCE COMPANY

THE EQUITABLE GENERAL INSURANCE COMPANY

Condensed Financial Statements
as of December 31, 1987

Income	Industrial-Alliance	The Equitable
	\$	\$
Net earned premiums	9 379 703	20 854 670
Net investment income	731 462	1 794 459
	10 111 165	22 649 129
Claims and expenses	6 446 551	15 364 201
Commissions	1 573 904	3 371 319
Administrative expenses and taxes	2 309 962	3 861 666
Income taxes	(255 573)	(468 825)
	10 074 844	22 128 361
Income before extraordinary item	36 321	520 768
Extraordinary item		1 387 747
Net income	36 321	1 908 515

Balance sheet

Bonds	3 218 528	8 508 503
Stocks	3 653 045	9 637 046
Mortgage loans		2 251 499
Short-term investments	1 786 923	5 560 606
Other assets	2 968 480	5 263 956
Total assets	11 626 976	31 221 610
Unsettled claims	1 721 069	5 166 312
Unearned premiums	4 712 439	11 467 451
Other liabilities	435 133	2 180 200
Capital stock	1 000 000	1 000 000
Retained earnings	3 758 335	11 407 647
Total liabilities and equity	11 626 976	31 221 610

**This report was produced by
the Communications Department
of Industrial-Alliance Life Insurance Company
1080 St-Louis Road
Sillery, Québec
G1K 7M3**

Si vous désirez recevoir
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veuillez communiquer avec:

**Service des Communications
L'Industrielle-Alliance Compagnie d'Assurance sur la Vie
1080, chemin St-Louis
Sillery, Québec
G1K 7M3
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(514) 499-3862**

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