

IN THE MATTER OF THE SECURITIES LEGISLATION OF
BRITISH COLUMBIA, ALBERTA, SASKATCHEWAN, MANITOBA, ONTARIO, QUÉBEC,
NOVA SCOTIA AND NEWFOUNDLAND AND LABRADOR

AND

IN THE MATTER OF THE MUTUAL RELIANCE REVIEW SYSTEM FOR EXEMPTIVE
RELIEF APPLICATIONS

AND

IN THE MATTER OF INDUSTRIAL ALLIANCE INSURANCE AND FINANCIAL
SERVICES INC. AND
INDUSTRIAL ALLIANCE CAPITAL TRUST

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the "Decision Maker", and collectively the "Decision Makers") in each of the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, QUÉBEC, Nova Scotia and Newfoundland and Labrador (collectively the "Jurisdictions") has received an application from Industrial Alliance Insurance and Financial Services Inc. ("Industrial Alliance") and Industrial Alliance Capital Trust (the "Trust") for a decision, pursuant to the securities legislation of the Jurisdictions (the "Legislation"), that the requirements contained in the Legislation to:

- (a) file interim financial statements and audited annual financial statements (collectively, the "Financial Statements") with the Decision Makers and deliver such statements to the security holders of the Trust;
- (b) make an annual filing (the "Annual Filing") with the Decision Makers in lieu of filing an information circular, where applicable;
- (c) file an annual report (the "Annual Report") and an information circular with the Decision Maker in QUÉBEC and deliver such report or information circular to the security holders of the Trust resident in Quebec; and
- (d) file an annual information form (the "AIF") and management's discussion and analysis (the "MD&A") of the financial condition and results of operation of the Trust with the Decision Makers in QUÉBEC, Ontario and Saskatchewan and deliver such AIF upon request or send such MD&A to security holders of the Trust, where applicable;

shall not apply to the Trust, subject to certain terms and conditions;

AND WHEREAS under the Mutual Reliance Review System for Exemptive Relief Applications (the "System"), the Commission des valeurs mobilières du QUÉBEC ("CVMQ") is the Principal

Regulator for this application;

AND WHEREAS, unless otherwise defined, the terms herein have the meaning set out in National Instrument 14-101 Definitions or in Notice 14-101 of the CVMQ;

AND WHEREAS Industrial Alliance and the Trust have represented to the Decision Makers that:

The Trust

1. The Trust is an open-end trust established under the laws of Ontario by Computershare Trust Company of Canada, as trustee (the "Trustee"), pursuant to a declaration of trust dated June 16, 2003 (as amended and restated from time to time) (the "Declaration of Trust"). The Trust's principal office is located in Toronto, Ontario. Industrial Alliance, whose head office is located in Quebec, will be the administrative agent of the Trust pursuant to an administration agreement entered into between the Trustee and Industrial Alliance (the "Administration Agreement").

2. Upon completion of the Offering (as defined below), the authorized capital of the Trust will consist of: (i) an unlimited number of Industrial Alliance Trust Securities – Series A (the "IATS - Series A"); and (ii) an unlimited number of trust units called Special Trust Securities.

3. Following the issuance of a final MRRS Decision Document evidencing receipts granted by the Decision Makers for the final prospectus (the "Prospectus") in respect of the public offering of IATS - Series A (the "Offering"), the Trust will be a reporting issuer or its equivalent in each of the provinces of Canada that provides for a reporting issuer regime. The Special Trust Securities and the IATS – Series A are collectively referred to herein as the "Trust Securities".

4. The Trust was established solely for the purpose of effecting the Offering and possible future offerings of Trust Securities in order to provide Industrial Alliance with a cost effective means of raising capital for Quebec insurance company regulatory purposes (such purposes being similar to those applicable to Canadian financial institutions) by means of: (i) creating and selling the Trust Securities; and (ii) acquiring and holding assets, which will initially consist primarily of a debenture issued by Industrial Alliance (the "IA Debenture"). The IA Debenture will generate income for distribution to holders of the Trust Securities. The Trust does not and will not carry on any operating activity, other than in connection with the Offering and any future offerings.

Industrial Alliance

5. Industrial Alliance is an insurance company governed by *An Act respecting insurance* (Quebec), Part IA of the *Companies Act* (Quebec) and *An Act respecting Industrial Alliance, Life Insurance Company* (Quebec).

6. The share capital of Industrial Alliance consists of (i) an unlimited number of class A preferred shares without nominal or par value, issuable in series (the "IA Class A Preferred Shares"), (ii) 10,000,000 preferred shares with a nominal or par value of \$25 per share, issuable in series (the "IA Preferred Shares"), and (iii) an unlimited number of common shares without

nominal or par value (the "IA Common Shares"). As of June 13, 2003, 39,237,230 IA Common Shares and 7,500,000 IA Preferred Shares, Series 1 (the "IA Preferred Shares Series 1") were issued and outstanding. It is intended that IA Class A Preferred Shares, Series A (the "IA Class A Preferred Shares Series A") will be created and issued prior to or at the closing of the Offering. In addition, as of June 13, 2003, 3,000,000 IA Preferred Shares, Series 2 (the "IA Preferred Shares Series 2") and 3,000,000 IA Preferred Shares, Series 3 were created and reserved for issuance upon the respective conversion of the IA Preferred Shares Series 1 and the IA Preferred Shares Series 2.

7. Industrial Alliance is a reporting issuer or the equivalent in each of the provinces of Canada providing for such a regime and is not, to its knowledge, in default of any requirement under the Legislation.

8. IA Common Shares are listed and posted for trading on the Toronto Stock Exchange.

IATS – Series A

9. Holders of IATS – Series A are entitled to receive non-cumulative fixed, semi-annual cash distributions (each, the "Indicated Yield") on the basis described below (the "Distributions"). Each semi-annual payment date for the Indicated Yield in respect of the IATS - Series A (the "Distribution Date") will be either a "Regular Distribution Date" or a "Distribution Diversion Date". A Distribution Date will be a Distribution Diversion Date, with the result that the Indicated Yield will not be paid in respect of the IATS - Series A but, instead, the Trust will pay the net distributable funds of the Trust to Industrial Alliance as holder of the Special Trust Securities, if (i) Industrial Alliance has failed in the period described in the Prospectus to declare regular dividends on its Public Preferred Shares (as defined below), if any, or (ii) if no Public Preferred Shares are then outstanding, on its IA Class A Preferred Shares Series A, in accordance with Industrial Alliance's ordinary dividend practice in effect from time to time in the three months period immediately prior to the commencement of the Distribution Period (as defined below) ending on the day immediately preceding such Distribution Date. In all other cases, a Distribution Date will be a Regular Distribution Date, in which case holders of IATS - Series A will be entitled to receive the Indicated Yield. "Public Preferred Shares" means, at any time, preferred shares of Industrial Alliance which, at that time (i) have been issued to the public (excluding any preferred shares held beneficially by affiliates of Industrial Alliance), (ii) are listed on a recognized stock exchange, and (iii) have an aggregate liquidation entitlement of at least \$75 million; provided, however, that if, at any time, there is more than one class of Public Preferred Shares outstanding, then the most senior class or classes of outstanding Public Preferred Shares will, for all purposes, be the "Public Preferred Shares". "Distribution Period" refers to the period from and including a Distribution Date to but excluding the next Distribution Date.

10. Under a Share Exchange Agreement entered into among Industrial Alliance, the Trust and a party acting as Exchange Trustee (the "Share Exchange Agreement"), Industrial Alliance has agreed, for the benefit of the holders of IATS - Series A, that in the event that the Trust fails on any Regular Distribution Date to pay the Indicated Yield on the IATS - Series A in full, Industrial Alliance will not pay dividends on the Dividend Restricted Shares, being the Public

Preferred Shares, the IA Non-cumulative Preferred Shares (as defined below) and the IA Common Shares, until the 12th month following the Trust's failure to pay the Indicated Yield in full on the IATS – Series A, unless the Trust first pays such Indicated Yield (or the unpaid portion thereof) to holders of IATS - Series A (the "Dividend Stopper Undertaking").

Accordingly, it is in the interest of Industrial Alliance to ensure, to the extent within its control, that the Trust complies with its obligation to pay the Indicated Yield on each Regular Distribution Date so as to avoid triggering the Dividend Stopper Undertaking. "IA Non-cumulative Preferred Shares" means the non-cumulative preferred shares of Industrial Alliance (including the IA Class A Preferred Shares Series A, the IA Class A Preferred Shares Series YY and the IA Preferred Shares Series 1).

11. Under the terms of the IATS - Series A and the Share Exchange Agreement, the IATS - Series A may be exchanged, at the option of the holders of IATS - Series A (the "Holder Exchange Right"), at a price for each IATS – Series A equal to 40 IA Class A Preferred Shares, Series YY (the "IA Class A Preferred Shares Series YY"). The IATS - Series A will be automatically exchanged, without the consent of the holder, for 40 IA Class A Preferred Shares, Series ZZ (the "IA Class A Preferred Shares ZZ" and, collectively with the IA Class A Preferred Shares Series YY, the "IA Exchange Class A Preferred Shares") upon the occurrence of certain stated events relating to the solvency of Industrial Alliance or actions taken by the Inspector General of Financial Institutions of Quebec (the "Inspector General") in respect of Industrial Alliance (the "Automatic Exchange").

12. The terms of the IA Exchange Class A Preferred Shares provide, among other things, that such shares are convertible at the option of the holder into IA Common Shares at certain times and in certain circumstances. In any event, the IA Exchange Class A Preferred Shares are not convertible into IA Common Shares until June 30, 2014. These conversion rights are not operative at any time that an event giving rise to the Automatic Exchange in respect of the IATS - Series A has occurred and is continuing.

13. The Trust may, subject to regulatory approval, on December 31, 2008 and on any Distribution Date thereafter, redeem the IATS - Series A. The price payable in respect of any such redemption will include an early redemption compensation component (such price being the "Early Redemption Price") in the event of a redemption of IATS - Series A prior to December 31, 2013. The price payable in all other cases will be \$1,000 per IATS - Series A together with any unpaid Indicated Yield thereon (the "Redemption Price").

14. Upon the occurrence of certain regulatory or tax events affecting Industrial Alliance or the Trust (a "Special Event"), the Trust may, subject to regulatory approval and on not less than 30 and not more than 90 days' prior written notice, redeem at any time all, but not less than all, of the IATS - Series A at the Early Redemption Price (if the IATS - Series A are redeemed prior to December 31, 2013) or at the Redemption Price (if the IATS - Series A are redeemed on or after December 31, 2013).

15. Industrial Alliance has agreed, under the Share Exchange Agreement, that it will maintain direct or indirect ownership of 100% of the outstanding Special Trust Securities. As a result, the financial results of the Trust will be consolidated with those of Industrial Alliance. Subject to

regulatory approval, the IATS - Series A constitute Tier 1 Capital of Industrial Alliance.

16. As long as any IATS - Series A are outstanding and are held by any person other than Industrial Alliance, the Trust may only be terminated with the approval of Industrial Alliance, as holder of the Special Trust Securities, and with the approval of the Inspector General: (i) upon the occurrence of a Special Event at any time; or (ii) for any reason on June 30, 2008 or on December 31, 2008, or on the last day of June and December of each year thereafter. Holders of Trust Securities will rank *pari passu* in the distribution of the property of the Trust in the event of a termination of the Trust, after the discharge of any creditor claims. As long as any IATS - Series A are outstanding and held by any person, other than Industrial Alliance, Industrial Alliance will not approve the termination of the Trust, unless the Trust has sufficient funds to pay the Early Redemption Price or the Redemption Price, as applicable.

17. The IATS - Series A are non-voting, except in limited circumstances, and Special Trust Securities entitle their holders to vote.

18. Except to the extent that the Distributions are payable to IATS – Series A holders and, other than in the event of the termination of the Trust (as set forth in the Declaration of Trust), IATS – Series A holders have no claim or entitlement to the income of the Trust or the assets held by the Trust.

19. Under an Administration Agreement entered into between the Trustee and Industrial Alliance, the Trustee has delegated to Industrial Alliance certain of its obligations in relation to the administration of the Trust. Industrial Alliance, as administrative agent, will provide advice and counsel with respect to the administration of the day-to-day operations of the Trust and other matters as may be requested by the Trustee from time to time.

20. The Trust has not requested relief for the purposes of filing a short form prospectus pursuant to National Instrument 44-101 *Short Form Prospectus Distributions* (NI 44-101) (including, without limitation, any relief that would allow the Trust to use Industrial Alliance's AIF as a current AIF of the Trust) and no such relief is provided by this Decision Document from any of the requirements of NI 44-101.

21. The Trust may, from time to time, issue further series of Industrial Alliance Trust Securities, the proceeds of which would be used to acquire, amongst other eligible investments, additional debentures from Industrial Alliance.

22. Because of the nature of the Trust, the terms of the IATS - Series A, the Share Exchange Agreement and the various covenants of Industrial Alliance given in connection with the Offering, information about the affairs and financial performance of Industrial Alliance, as opposed to that of the Trust, is meaningful to holders of IATS - Series A. Industrial Alliance's filings and the delivery of the same material to holders of IATS – Series A as that delivered to shareholders of Industrial Alliance will provide holders of IATS - Series A and the general investing public with all information required in order to make an informed decision relating to an investment in IATS - Series A. Information regarding Industrial Alliance is relevant both to an investor's expectation of being paid the Indicated Yield on the IATS - Series A as well as the

return of the investor's initial investment.

AND WHEREAS under the System, this MRRS Decision Document evidences the decision of the Decision Makers (collectively, the "Decision");

AND WHEREAS each of the Decision Makers is satisfied that the tests contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision have been met;

THE DECISION of the Decision Makers under the Legislation is that the requirement contained in the Legislation:

- (a) to file Financial Statements with the Decision Makers and deliver such statements to holders of Trust Securities;
- (b) to make an Annual Filing, where applicable, with the Decision Makers in lieu of filing an information circular;
- (c) to file an Annual Report and an information circular with the Decision Maker in Québec and deliver such report and information circular to holders of Trust Securities resident in Quebec; and
- (d) to file an AIF and annual and interim MD&A with the Decision Makers in Québec, Ontario and Saskatchewan and deliver such AIF upon request or send such MD& A to holders of Trust Securities, where applicable.

shall not apply to the Trust for so long as:

- (i) Industrial Alliance remains a reporting issuer under the Legislation;
- (ii) Industrial Alliance files with the Decision Makers, in electronic format under the Trust's SEDAR profile, the documents listed in clauses (a) to (d) above of this Decision, at the same time as they are required under the Legislation to be filed by Industrial Alliance;
- (iii) the Trust pays all filing fees that would otherwise be payable by the Trust in connection with the filing of the documents referred to in clauses (a) to (d) above of this Decision;
- (iv) Industrial Alliance sends its Annual Filings, its Financial Statements, its annual and interim MD&A and its AIF, where applicable, to holders of Trust Securities and its Annual Report to holders of Trust Securities resident in the Province of Québec at the same time and in the same manner as if the holders of Trust

Securities were holders of Industrial Alliance Common Shares;

(v) all outstanding securities of the Trust are either IATS – Series A, additional series of Industrial Alliance Trust Securities or Special Trust Securities;

(vi) the rights and obligations of holders of additional series of Industrial Alliance Trust Securities are the same in all material respects as the rights and obligations of the holders of the IATS - Series A, with the exemptions of economic terms such as the rate of Indicated Yield, redemption dates, exchange dates and rates of exchange; and

(vii) Industrial Alliance is the beneficial owner of all Special Trust Securities.

and provided that this Decision shall expire 30 days after the date a material adverse change occurs in the affairs of the Trust.

Dated at Montreal, this 24th of July, 2003

Me Guy Lemoine

M. Jean Meloche