ING CANADA INC.

2004 ANNUAL REPORT

Here for You

ING Canada is the largest provider of property and casualty insurance in Canada, operating through the ING Novex, Nordic, Trafalgar, BELAIR*direct* and ING Insurance companies. We provide automobile, property and liability insurance to individuals and small- to medium-sized businesses across Canada. We enjoy leading positions in all markets where we operate.

In addition, our investment management operation provides investment management services with respect to the invested assets of our insurance subsidiaries.

Personal automobile insurance accounts for approximately one half of our business, followed by commercial insurance, non-auto, personal property and commercial automobile coverage.

ING has a proud history in Canada: we trace our roots back to 1809 when The Halifax Insurance Company was established. 2005 represents ING Canada's first full year as a public company following listing on the Toronto Stock Exchange in December, 2004 concurrent with completing a $1.04 billion Initial Public Offering.

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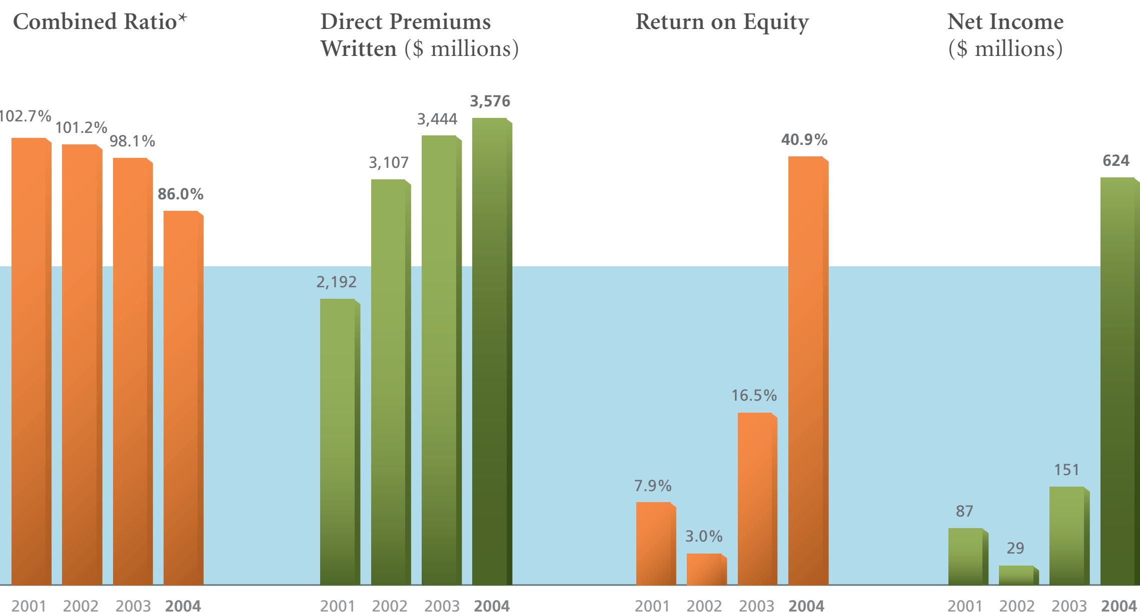
Financial Highlights

(in millions of dollars)	2004	2003	2002
Direct premiums written	$ **3,576**	$ 3,444	$ 3,107
Net premiums earned	$ **3,365**	$ 2,761	$ 2,337
Total revenue	$ **3,781**	$ 3,015	$ 2,559
Net income	$ **624**	$ 151	$ 29
Total shareholders' equity	$ **2,060**	$ 989	$ 839
Debt outstanding	$ **256**	$ 483	$ 503
Debt to capital	**11.1%**	32.8%	37.5%
Claims ratio	**56.6%**	68.1%	73.8%
Expense ratio	**29.4%**	30.0%	27.4%
Combined ratio	**86.0%**	98.1%	101.2%
Return on equity	**40.9%**	16.5%	3.0%



* For P&C insurance subsidiaries. The combined ratio is the sum of claims, claims expenses, commissions, premium taxes and general expenses divided by net premiums earned.

Chairman's Message

2004 was an outstanding year for ING Canada – a milestone year in which we broke new ground on our journey to further establish the company as Canada's leader in the property and casualty insurance industry. Our financial performance was unprecedented. Our growth gained momentum following the acquisition of Allianz Canada and the launch of our Initial Public Offering, one of the most successful IPOs this country has seen in many years.

On behalf of your Board, I would like to welcome our new shareholders and thank you for your confidence. In recognition of that trust, ING Canada is committed to continuing to offer our customers one of the best value propositions in the industry, and to outperforming our competitors. Last year's achievements speak volumes about this commitment.

The cornerstone of our strategy is to increase the scale of our activities and to leverage this scale to develop sustainable competitive advantages. To that end, we deepened our knowledge of the various regional markets and developed unmatched core competencies in pricing, underwriting and claims management. We have also made many acquisitions over the past several years, and developed efficient integration models that expanded our business in a stable and mature industry at an annual average rate of 18% over the past 10 years.

One of the boldest initiatives we embarked upon in 2004 was our decision to offer investors the opportunity to share in our success. An IPO represents an historic moment in the life of an organization and ours is no exception. For ING Canada, this Initial Public Offering constitutes an unprecedented opportunity to continue aggressively pursuing our growth strategy, backed by the support of ING Group.

The Canadian property and casualty insurance industry is the most fragmented in the financial services sector. The five largest insurers account for just 37% of the total market. While consolidation activities have slowed somewhat over the last few years due to the lack of capital available for financing growth initiatives, we firmly believe that most – if not all – industry participants will re-evaluate their current strategies in light of the evolving industry structure. It is our firm belief that new acquisition opportunities will arise from these developments.

Being a public company gives ING Canada several key advantages. It gives the organization more flexibility to pursue new acquisitions and to leverage our current scale and expertise to benefit all stakeholders.

We have also made many acquisitions over the past several years, and developed efficient integration models that expanded our business in a stable and mature industry at an annual average rate of 18% over the past 10 years.

As we pursue these initiatives, we are creating a more competitive environment in which consolidators will accelerate their growth, and consumers will benefit from greater efficiencies. Our shareholders enjoy the opportunity to participate in one of the fastest growing and most efficient operators in the industry.

As a public company, ING Canada will continue to reap the benefits of being associated with one of the largest and most respected global financial institutions. By maintaining our relationship with ING Group, ING Canada will continue to take advantage of its brand recognition and reputation among Canadian consumers. Furthermore, ING Canada will benefit from global resources and expertise in the development of best practices in corporate governance and accountability, human resources and information technology.

Being a public company also demands increased levels of accountability. Over the years, we have had the privilege of assembling numerous Boards of Directors for our operating companies as well as an Advisory Board for ING Canada. The independent members of these boards – well-qualified individuals with an intimate knowledge of our organization – have shown a strong bias towards accountability and governance issues.

We deeply appreciate their contributions and are delighted that they will continue their involvement with ING Canada as members of your Board of Directors. My colleagues will continue to rely on their expert advice to further solidify ING Canada's position as one of the most respected organizations.

I would like to acknowledge the dedicated service of one of our Directors, Gordon Wicijowski, who will not stand for re-election at the annual meeting in April 2005. Gordon served ING Canada and the Board with distinction and I thank him for his invaluable contributions. ING Canada benefited from his wise counsel and we are grateful for the guidance he provided.

I would also like to recognize the overwhelming contribution of our management team and our 6,800 employees. Day in, day out, they steered the organization through one of the most challenging and eventful years in our history. Not only did they contribute to our financial performance and our growth, they also strived to provide, in collaboration with our distribution partners, a high level of service to our customers. Thanks to their efforts and your confidence, ING Canada is poised to continue outperforming the industry in both growth and profitability, and to continue creating value for all our shareholders, distribution partners and clients.

Yves Brouillette
Chairman

President and CEO’s Message

AN EXCEPTIONAL YEAR FOR ING CANADA AND OUR CLIENTS

2004 was an exceptional year both for the property and casualty insurance industry and for our customers. The industry’s financial performance reached historic highs after rebounding from very difficult market conditions in 2001 and 2002. At the same time, consumers, for the first time in many years, benefited from reduced premiums, thanks to new initiatives to better control automobile insurance costs in many provinces.

During 2004, ING Canada continued to outperform the industry. Our net income reached an all-time record of $624.2 million. This solid performance was achieved in every region and across all product lines as well as in our investment activities.

Our increased profitability is chiefly the result of lower than expected claims costs, which generated increased underwriting profits for our insurance operations. Furthermore, as a result of Canada’s robust financial market conditions and our investment strategy, we realized strong investment performance and unusually high capital gains.

While we are proud of our achievements and performance in the last year, we remain committed to continue building our scale to provide strong results and improve our value proposition to our customers.

OUR UNDERWRITING PERFORMANCE REACHED NEW LEVELS

Combined ratio is the key indicator of the increased profitability of our insurance operations. A combined ratio represents the amount paid in claims as well as the operating costs of insuring our clients as a percentage of premiums. A ratio of less than 100% indicates that premiums more than cover the cost of claims and operating expenses: therefore the lower the ratio, the better the performance. In 2004, our combined ratio improved across all business lines, decreasing to an historic best of 86%. The improvement was most apparent in personal lines, which include home and auto insurance, where it decreased by 16.4 percentage points over the previous year. In commercial lines, our ratio dropped by 3.4 percentage points over 2003.

The key factor that contributed to our improved underwriting results was a marked reduction in claims frequency. This trend, which we have been observing for the last few years, accelerated in 2003 and 2004 as consumers and businesses submitted fewer claims than in the past.

We believe that reduced precipitation (including snow and rain) experienced during the year 2004, increases in the price of gasoline and a change in consumer behavior regarding smaller claims, were important contributors to the decrease in claim frequencies. Other long term favourable trends contribute to explaining the reduction in frequencies, such as favourable economic conditions and ageing of the driving population.

THE REFORMS ARE WORKING

Numerous initiatives adopted in late 2003 and in 2004 as a result of consultations between the industry, consumer groups and provincial governments have stabilized automobile insurance in most provinces. These initiatives focused on better controlling the costs of automobile claims, reducing premiums and improving the availability of insurance to consumers.

For example, the New Brunswick and Nova Scotia governments adopted measures to cap the amount paid for minor injuries. In Ontario, measures aimed at better controlling the cost of accident benefits were also adopted. In these provinces our claims experience improved greatly, which in turn translated into lower rates for our customers. In Ontario, our overall automobile rates have decreased by nearly 17% since the beginning of 2004, while our rates have fallen by nearly 25% in New Brunswick and Nova Scotia since the middle of 2003. More recently, the reforms adopted by the Alberta government resulted in an average reduction of 7.7% in our automobile rates.

OUR SCALE IS DELIVERING RESULTS

The strength of ING Canada's underwriting results in 2004 and in previous years is a direct result of our efforts to leverage the scale of our activities into sustainable competitive advantages. By consistently increasing our market share over the years we have built a strong presence in the markets in which we operate through decentralized, highly knowledgeable regional management teams. These teams, well aware of the market conditions in their regions and very supportive of our distribution partners, are backed by corporate teams focused on developing disciplined risk selection processes, sophisticated pricing strategies and strong in-house claims capabilities.

This advantage of scale permits us to continue to offer our clients competitive rates that accurately reflect their risk profiles, while simultaneously improving efficiencies and outperforming the industry.

WE ARE CREATING VALUE FOR OUR DISTRIBUTION PARTNERS AND CLIENTS

In 2004, we continued to foster closer relationships with our 2,800 distribution partners and the three million clients whom we protect. Our success relies on our ability to provide high-quality products and services at attractive and competitive rates to our clients, while delivering high-quality services to our brokers.

We have always strived to provide brokers with the tools they need to allocate fewer resources to managing transaction processes, and more to understanding and servicing their clients' needs. Over the last year, we delivered on this mandate by continuing to offer our distribution partners sophisticated e-commerce solutions that improve their efficiency and their clients' experience.

In 2004, we built on the momentum of previous years by launching a broker extranet, which has quickly become the main gateway to product information and to the numerous point-of-sale applications we have developed over the years.

We also enhanced our customers' experience with the introduction of innovative products. We launched a number of new home and auto insurance products known as *My Home*, *My Home Complete* and *My Home and Auto*. In Quebec, similar products were introduced under the brand *Orange Signature*.

Our direct insurance provider, BELAIR*direct*, continued to offer innovative insurance solutions, launching a number of initiatives aimed at enhancing clients' claims experience. Another important initiative was the launch of a new concept of retail outlets, which showcase our product offering and enhance interaction between consumers and agents.

However, our greatest success last year in enhancing customer satisfaction and strengthening customer relationships was our Client Service Guarantee, launched in late 2003. Under this program, we promise to provide our customers with 24/7 emergency claims service. In fact, we guarantee that a customer in need can reach an insurance professional within 30 minutes. If we are unable to deliver on our promise, we will refund the customer's annual premium up to a maximum of $1,000.

We also worked hard to improve our relationships with clients facing disaster situations by increasing our response to emergencies, such as those that occurred in Peterborough, Ontario and Edmonton, Alberta last summer.

WE ARE COMMITTED TO BUILDING ON OUR SUCCESSES

As we move forward in 2005, we will pursue our strategy of building our scale to deliver solid results and a more advantageous value proposition to our distribution partners and clients. This will become even more important this year and in the years to come, as the industry grows more competitive through improved financial performance.

While the recent acquisition of Allianz Canada will contribute to sustaining our track record of growth and strong underwriting performance, we intend to continue delivering higher value to our distribution partners and clients. The goal, as always, is to provide all current and future customers with a rewarding ING experience and to foster our organic growth.

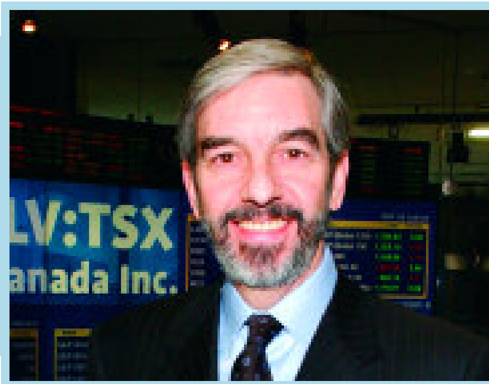
During 2004, ING Canada continued to outperform the industry. Our net income reached an all-time record of $624.2 million. This solid performance was achieved in every region and across all product lines as well as in our investment activities.

The key to our success is safely in the hands of the front lines – our employees. Thanks to their dedication, we have been able to better serve our distribution partners and clients. Our clients – notably those who relied on us for fast and fair claims settlements – can also attest to our employees' commitment and knowledge. I have no doubt that our staff will continue enhancing its level of service in 2005.

This year, we will continue to improve programs aimed at retaining and attracting the very best employees, including those we recently welcomed from Allianz. Our efforts will be supported by community involvement initiatives aimed at leveraging the ING brand among our people, our brokers and their clients. ING Canada benefits from its association with one of the strongest financial services brands in the world, and our goal is to foster awareness of our insurance operations in the communities in which our clients live and work.

OUR OBJECTIVES ARE STEADFAST: GROWTH AND SHAREHOLDER VALUE

All these initiatives are integral to the growth strategy we will pursue in the current year. Together with the integration of the activities of Allianz Canada, which is currently happening at an accelerated pace, and continuous consultations with governments and consumer organizations, our strategic focus will continue to deliver value to all our shareholders.



Claude Dussault
President & CEO

With three million clients from coast to coast, ING Canada protects more Canadians from loss or damage to their automobiles, homes and businesses than any other insurer. We provide this protection through personal, group and commercial insurance policies distributed by a national network of more than 2,800 brokers, as well as directly over the Internet and through our call centres via BELAIR*direct*.

A broad product line enables us to provide a full spectrum of insurance solutions for drivers, property owners and a wide variety of small- and medium-sized businesses including retailers, landlords, light manufacturers and contractors.

In 2004, approximately 68% of direct premiums written came from our personal insurance business while 32% was generated by commercial insurance business. Personal automobile coverage accounted for 48% of total direct premiums written during the year and 71% of our personal insurance business. We enjoy leading positions in all markets where we operate.

The ING Difference

Our success – in growing the business, in serving our customers, in producing superior financial returns – is the direct result of the disciplined application and execution of our core competencies in pricing, underwriting and claims.

PRICING

The key to success in our business is the ability to assess risk and price appropriately for it. Getting this right is largely a result of leveraging statistics. By putting together the country's largest proprietary client database with the industry's largest actuarial team, we gain superior insight into the number and size of expected losses.

UNDERWRITING

Selecting the right risks is the underwriter's challenge.

Our ability to identify and segment risk using a greater number of variables than the industry is integral to our underwriting strength. Discipline in the risk selection process is maintained by a strong commitment to technology in the field and application of standardized and sophisticated underwriting criteria.

Did you know?

We processed 2,800 claims, paying out more than $47 million, in response to the major floods that occurred in Peterborough, Ontario and Edmonton, Alberta in 2004.

CLAIMS

Bad stuff happens. We'll be there to help.

We settled 97% of all claims in-house in 2004 using our national team of more than 1,700 claims adjusters located in 31 offices throughout Canada. This capability enables quicker settlements, increases client satisfaction and keeps costs down. As Canada's largest property and casualty insurer, we have established a network of preferred suppliers throughout our markets. These suppliers, which are selected on the basis of professionalism, reputation, speed and quality of service, ensure policyholders are dealt with expeditiously, courteously and professionally, while keeping costs down.

A BRIEF PRIMER ON AUTO INSURANCE REGULATION

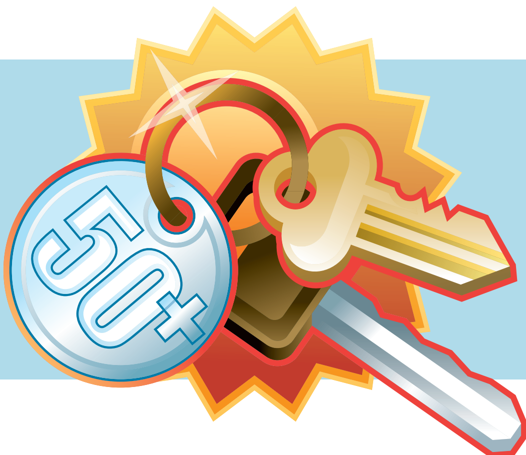
All of our insurance subsidiaries, with the exception of Quebec-based Belair Insurance Company Inc., are federally incorporated and subject to supervision by the Office of the Superintendent of Financial Institutions. OSFI primarily focuses on ensuring and monitoring the financial health of institutions under its supervision.

Additionally, all of our insurance subsidiaries are licensed under insurance legislation in each of the provinces and territories in which they conduct business. The provincial authorities tend to concentrate their efforts on business practices, including policy terms and distribution.

Automobile insurance is a compulsory product and is regulated by provincial authorities. Several provinces have instituted major automobile insurance reforms in the recent past, following an explosion in costs that led to dramatic rate increases in 2002 and 2003.

Automobile insurance is provided by provincially owned insurers in Saskatchewan, Manitoba and British Columbia, although private insurers can compete for optional coverage such as collision, comprehensive and excess liability in these provinces.

In Quebec, while the province alone offers coverage for bodily injury, ING Canada and other private insurers provide protection against physical damage.



Did you know?

Through our Grey Power network, drivers aged 50 and over can enjoy coverage and rates designed specifically for them.

Automobile Insurance Regulatory Profile

Province/Territory	Public	Rate Filings	Facility Association	Risk Sharing Pool	No Fault – Auto Physical Damage	"Take All Comers"
British Columbia	●	(2)				(4)
Alberta		File & use	(3)	●		●
Saskatchewan	●	(2)			(6)	(4)
Manitoba	●	(2)			●	(4)
Ontario		File & approve	●	●	●	(5)
Quebec	(1)	Use & file		●	●	
Nova Scotia		File & approve	●			(5)
New Brunswick		File & use	●	●	●	(5)
Prince Edward Island		File & approve	●			(5)
Newfoundland		File & approve	●			(5)
Yukon		None required	●			
Northwest Territories		None required	●			
Nunavut		None required	●			

(1) Bodily injury only. (2) None required for private insurers. (3) Exists, but with a tight definition for eligibility.
(4) Take all comers for public insurer. (5) As per insurer filed rules. (6) Can be selected or not.

RATE SETTING

In various provinces, insurers file their rates with the relevant authority, wait for a prescribed period of time and then implement the proposed rates. In other jurisdictions, the insurer must wait for specific approval of filed rates before they may be used. In Quebec, rates are filed following use.

RISK SELECTION

Based on filed underwriting rules, certain higher risk clients are covered by the Facility Association, a mandatory pooling arrangement amongst all industry participants, whose results are shared by the participants on the basis of market share.

Facility associations exist in all provinces with the exception of Quebec and those provinces where insurance is offered by government-owned insurers.

In addition, insurers in Quebec, Ontario, Alberta and New Brunswick may place a limited number of their clients in a risk-sharing pool, a voluntary pooling arrangement amongst select industry participants, the results of which are shared by the participants on the basis of market share. This mechanism serves to ensure availability of coverage in the marketplace.

Did you know?

Our Client Service Guarantee will pay you your annual premium up to $1,000 if you call us with an emergency claim and you're not put in touch with an insurance claims representative within 30 minutes.

NO-FAULT

Ontario, Quebec, Manitoba, Saskatchewan and New Brunswick are no-fault provinces. No-fault pertaining to physical damage to automobiles means that a claimant deals with his or her insurer in settling financial compensation for the damage incurred, regardless of which driver is at fault.

The right to sue for damages in excess of accident benefits received and pain and suffering differs amongst the provinces. While there is "pure no-fault" legislation in Quebec and Manitoba, "threshold no-fault" prevails in Ontario, while Saskatchewan practices "modified pure no-fault".

Generally speaking, the higher the legislated no-fault threshold, the less the judicial system is involved. Thresholds can be based on a dollar amount of insured medical expenses or based upon specific injury descriptions, such as a "serious and permanent impairment" in Ontario.

At this threshold, claimants can sue for pain and suffering. The largely non-adversarial approach reflected by no-fault provinces tends to result in reduced legal costs.

RECENT REFORMS

Nova Scotia and New Brunswick recently capped awards for pain and suffering from minor injuries, resulting in more stable, healthier markets and rate reductions of nearly 25% since 2003. Legislative action taken in Ontario and Alberta, two of our major markets, is particularly noteworthy for the impact it has had on rates.

Ontario

In the late 1990s, automobile insurance fraud and related runaway health care costs emerged as a major problem, which resulted in increased insurance premiums in 2001, 2002 and 2003. Subsequent legislative changes contained in Bill 198 took hold November, 2003: these changes required paralegals to register with the Financial Services Commission of Ontario and obtain errors and omissions insurance, prohibited referral fees, capped payment for certain treatments and created a one-year moratorium on cash settlements for accident benefit claims, amongst other actions.

These changes have had an immediate and positive impact, allowing insurers to pass the savings on to consumers by reducing rates by at least 10% as expected by the provincial government. ING Canada has filed and obtained approval for rate reductions approximating 17% since the beginning of 2004.

Did you know?

Our Personal Insurance Protector allows clients to cover both their home and auto using a single policy.

Alberta

Alberta froze rates at 95% of then-current levels and introduced various reforms effective October, 2004. Rate levels will increase over a three-year period, in line with increases in costs only. Insurers can reduce rates, however, commencing October, 2005.

This freeze in rates was imposed concurrent with the implementation of important reforms, including introduction of a pricing grid and a $4,000 cap on awards for pain and suffering resulting from minor injuries.

Some of the associated cost savings are intended by the government to accrue to younger drivers, effectively reducing the net benefit to other drivers. ING Canada reduced its rates by 7.7% in 2004.

Initial Public Offering

ING Canada successfully listed its common shares on the Toronto Stock Exchange on December 15, 2004, raising $906,880,000 through the country's largest Initial Public Offering in recent years.

Market acceptance was swift. Our shares, issued at $26.00 per share, rose more than 11% to close at $28.88 on the first day of trading and closed the year at $29.31 per share. Subsequent exercise of the over-allotment option on January 14, 2005 increased the total capital raised to more than $1 billion ($1,042,860,000).

ING Groep N.V., one of the world's largest and best-known financial services companies, remains a 70% owner, giving ING Canada the best of both worlds – a strong, supportive majority owner as well as the financial flexibility afforded a public company.

Our highly successful IPO signified the beginning of a new era in our continuing journey to cement ING Canada's position as the country's leading property and casualty insurance provider.

Our shareholders will benefit from the same commitment to return on equity, growth, financial strength and risk management that clients, employees and other ING Canada stakeholders have long experienced.

Did you know?

Client satisfaction surveys in 2004 revealed that over 90% of our claimants were satisfied with the claims process and the payments they received.

Over 46% of our clients requiring auto repairs went to one of our preferred provider facilities in 2004.

Glossary of Selected Terms

Adverse development
Losses for which estimations of ultimate incurred losses and allocated LAE are proven inadequate. Increases in incurred losses as a result of adverse development are recognized in financial statements in the period of the change.

Case reserves
The liability established to reflect the estimated cost of reported but unpaid claims and claims expenses that the insurer will ultimately be required to pay.

Claim expenses
The expenses of settling claims, including allocated loss adjustment expenses and unallocated loss adjustment expenses. Claim expenses are also referred to as loss adjustment expenses (LAE).

Claim reserves
The total of case reserves and IBNR.

Claims ratio
Claims and claim expenses incurred, net of reinsurance, expressed as a percentage of net premiums earned. Loss ratio is also referred to as claims ratio.

Combined ratio
The sum of the claims ratio and the expense ratio, determined in accordance with GAAP.
A combined ratio below 100% indicates a profitable underwriting result. A combined ratio over 100% indicates an unprofitable underwriting result.

Direct premiums written
The total premiums from the primary insured in respect of insurance underwritten by an insurer during a specified period.

Expense ratio
Expenses including commissions, premium taxes and all general and administrative expenses, incurred in operating the business during a defined period and expressed as a percentage of net earned premiums for the same period.

Gross premiums written
Total premiums for insurance written, including assumed reinsurance, during a given period.

Incurred but not reported (IBNR) reserve
A combination of reserves for estimated losses that have been incurred but not yet reported and a reserve for future developments on losses which have been reported.

Net premiums earned
The portion of premiums written that is recognized for accounting purposes as revenue during a period, i.e., the portion of premiums written allocable to the expired portion of policies after the assumption and cession of reinsurance.

Net premiums written
Gross premiums written for a given period less premiums ceded to reinsurers and retrocessionaires during such period.

Provision for adverse deviation
An amount added to loss reserves to provide for adverse deviation from loss reserve estimates including a provision covering the claim development variability, the risk associated with reinsurance recoveries and the interest rate risk.

Redundancy (deficiency)
Claims reserves are re-evaluated at different points in time. An increase from the initial estimate indicates a deficiency and a decrease indicates a redundancy.

Reinsurance
An arrangement in which an insurance company, the reinsurer, agrees to indemnify another insurance or reinsurance company, the ceding company, against all or a portion of the insurance or reinsurance risks underwritten by the ceding company under one or more policies.

Underwriting profit
The difference between net premiums earned and the sum of net claims incurred, commissions, premium taxes and all general and administrative expenses.

Cautionary Note Regarding Forward-looking Statements

Certain of the statements contained herein about our current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments constitute forward looking statements. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward looking statements. Forward looking statements are based on estimates and assumptions made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate in the circumstances. Many factors could cause our actual results, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward looking statements, including, without limitation, the following factors: our ability to implement our strategy or operate our business as we currently expect; our ability to accurately assess the risks associated with the insurance policies that we write; adverse capital market developments or other factors which may affect our investments; the cyclical nature of the P&C insurance industry; government regulations; litigation and regulatory actions; periodic negative publicity regarding the insurance industry; intense competition; our reliance on brokers and third parties to sell our products; our ability to successfully pursue our acquisition strategy; our ability to integrate the business of Allianz Canada; our ability to achieve cost savings anticipated from the acquisition of Allianz Canada; uncertainties associated with our acquisition of Allianz Canada; the substantial influence of ING Groep; our participation in the Facility Association (a mandatory pooling arrangement among all industry participants); terrorist attacks and ensuing events; the occurrence of catastrophic events; our ability to maintain our financial strength ratings; our ability to alleviate risk through reinsurance; our ability to successfully manage credit risk; our reliance on information technology and telecommunications systems; our dependence on key employees; general economic, financial and political conditions; our dependency on the results of operations of our subsidiaries; the lack of a trading history of, and the current absence of a liquid market for, our common shares; the volatility of the stock market and other factors affecting our share price; and future sales of a substantial number of our common shares. These factors should be considered carefully, and readers should not place undue reliance on our forward looking statements. We have no intention and undertake no obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Management's Discussion and Analysis of Financial Condition and Results of Operations

February 15, 2005
The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and accompanying notes thereto in our Annual Report and our Annual Information Form available at www.sedar.com. Certain totals, subtotals and percentages may not reconcile due to rounding.

CURRENT OUTLOOK

We believe that several key factors will affect the property and casualty (P&C) insurance industry in the next 12 to 24 months.

Given the large contribution of automobile insurance to the premium volume of the P&C insurance industry, regulatory changes to automobile insurance are expected to continue to impact the performance of the P&C insurance industry. Furthermore, the lower automobile claim frequencies observed in 2004 will either return to historical levels or due to the competitive nature of the market lead to premium reductions in the coming 24 months.

Favourable experience in commercial insurance in the last three years and the strengthening of the P&C insurance industry's capital position will likely accelerate competition in commercial insurance. Consequently, the industry's growth rates for the next 12 to 24 months are likely to be below historical levels. We also expect that the underwriting results will not remain at such favourable levels.

CHALLENGES AND STRATEGY

Our strategy remains focused on industry outperformance and profitable growth, organically and through acquisition.

Notwithstanding the exceptional progress made in 2004, some headwinds began to take shape last year that will pose challenges for us in 2005. Automobile insurance rate freezes, rollbacks and reductions introduced in various provinces over the last two years caused our top line organic growth to slow significantly in 2004 and will continue to dampen growth in 2005. The decline in claims frequency witnessed in recent years and most notably in 2004 may not be sustainable and will likely return to historical levels, ultimately leading to lower underwriting profits. And finally, competition in commercial lines intensified in 2004 as a result of higher profitability and an improved capital position for the industry.

We plan to respond thoughtfully and aggressively to each of these challenges.

Top line growth is driven not only by rate levels but also through the attraction of new customers and the retention of existing customers. Our strategy for growth is therefore focused on doing that. We have begun implementation of an aggressive growth plan for our fast growing direct distribution channel, BELAIR*direct*. We have additionally introduced various initiatives to further improve our service levels to customers and broker partners. Our Client Service Guarantee for customers and rollout of point-of-sale applications with brokers are examples of these initiatives aimed at increasing satisfaction levels of our customers and broker partners and their ease of doing business with us.

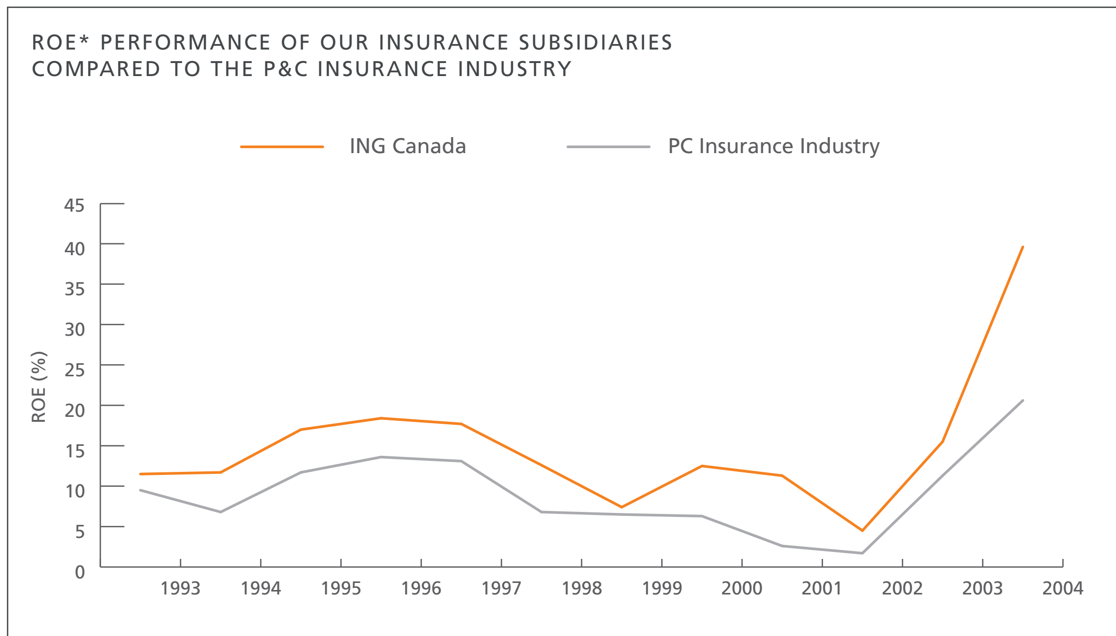
We believe that our sophisticated risk segmentation approach to pricing and underwriting will enable us to deliver underwriting profits even if the trends are less favourable than in recent years. We will continue to sharpen our risk based pricing models by continually assessing the effectiveness of the rating variables.

To address increased competition in commercial lines in 2005, we will launch marketing and client service initiatives designed to increase unit count growth and improve policy retention. In addition, we will enhance and expand our small business model for brokers. The combination of improved service, better technology and ease-of-doing-business should improve our penetration in the small business segment.

CREATING VALUE FOR SHAREHOLDERS

We continued to outperform the industry in 2004, this time by a wider margin than usual.

The return on equity (ROE) for our insurance subsidiaries in 2004 was 39.6% compared to an estimated 20.6% for the property and casualty industry. Over the last twelve years from 1993 to 2004, the average ROE of our insurance subsidiaries (15.0%) exceeded that of the industry (9.2%) by 5.8 percentage points. This consistent track record of outperformance demonstrates our commitment and our ability to deliver strong shareholder returns.



* Excludes ROE of our non-insurance companies.

Source: IBC for estimated industry ROEs. Company reports for ING Canada ROEs.

OVERALL PERFORMANCE

Net income for the year ended December 31, 2004 of $624.2 million represents an increase of $473.7 million, or 314.8%, compared to net income of $150.5 million for the comparative period in 2003. These results were driven by improved underwriting results, including historically low claims ratios in most lines of business, plus significant increases in realized investment and other gains and investment income.

Investments increased by $2,148.9 million or 55.6% to $6,010.4 million at December 31, 2004 compared to 2003. The significant growth was primarily due to the acquisition of Allianz of Canada, Inc. ("Allianz") which contributed $1,061.5 million of investments. The Allianz contribution to investment income in the month of December was $3.2 million. The commutation of a quota share reinsurance treaty on January 1, 2004 increased investments by $665.0 million and generated a full year of investment income. In addition, profits were generally earned evenly throughout the year and were invested and contributed to investment income.

Shareholders' equity increased by $1,070.5 million or 108.2% to $2,059.6 million at December 31, 2004. In addition to the net income of $624.2 million, the completion of an initial public offering ("IPO") in December increased equity by $875.1 million. We used a portion of the total proceeds to repay existing debt plus some additional debt established as part of a corporate restructuring undertaken prior to the IPO. Just prior to this restructuring, $428.7 million of shareholders' equity was converted, through reduction of stated capital, into promissory notes and ultimately repaid to the controlling shareholder.

The summary financial data set forth in the following tables have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and have been derived from our consolidated financial statements as at and for the years ended December 31, 2004, 2003 and 2002.

Years ended December 31 (in millions of dollars except for per share data)	**2004**	2003	2002
Direct premiums written	**$ 3,575.9**	$ 3,443.8	$ 3,107.0
Total revenue	**3,780.9**	3,015.4	2,559.1
Underwriting income (loss)	**470.0**	51.7	(27.3)
Net income	**624.2**	150.5	29.3
Earnings per share			
Basic	**$ 6.51**	$ 1.61	$ 0.31
Diluted	**$ 6.49**	$ 1.61	$ 0.31

As at December 31 (in millions of dollars)	**2004**	2003
Investments	**$ 6,010.4**	$ 3,861.5
Total assets	**9,663.1**	6,906.8
Debt outstanding	**256.2**	483.1
Total shareholders' equity	**2,059.6**	989.1

The following table shows our selected financial ratios and ROE data.

Years ended December 31

	2004	2003	2002
Claims ratio	**56.6%**	68.1%	73.8%
Expense ratio	**29.4%**	30.0%	27.4%
Combined ratio	**86.0%**	98.1%	101.2%
ROE[1]	**40.9%**	16.5%	3.0%
ROE of our P&C insurance subsidiaries[2]	**39.6%**	15.5%	4.5%

(1) Represents our net income for the twelve months ended on the date indicated divided by the average shareholders' equity over the same twelve month period.

(2) Represents net income for the twelve months ended on the date indicated of our P&C insurance subsidiaries divided by the average shareholders' equity for our P&C insurance subsidiaries over the same twelve month period. Our P&C insurance subsidiaries consist of Belair Insurance Company Inc., ING Insurance Company of Canada, ING Novex Insurance Company of Canada, The Nordic Insurance Company of Canada and Wellington Warranty Company Inc. After November 30, 2004 the results of our P&C insurance subsidiaries consist of the results of the above-mentioned subsidiaries as well as the subsidiaries of Allianz: Allianz Insurance Company of Canada and Trafalgar Insurance Company of Canada.

Underwriting income for the twelve months ending December 31, 2004 of $470.0 million represents an increase of $418.3 million over 2003. While all lines of business performed strongly in 2004, a significant portion of the underwriting results was driven by our personal automobile portfolio contributing $291.9 million to the underwriting income for the year.

The performance of the automobile portfolio in 2004 was driven by an unexpected reduction in claim frequencies, by claims cost stabilization resulting from product reforms in most markets as well as improvement in the assumed underwriting results from the Facility Association (the statutory residual market insurance pools in which we are required to participate).

We have observed an unexpected reduction in automobile claim frequencies in key markets in 2004, most evident in physical damage to vehicles. We believe that reduced precipitation (including snow and rain) experienced during the year 2004, increases in the price of gasoline and a change in consumer behaviour regarding smaller claims, were important contributors to the decrease in frequencies. Other long term favourable trends contribute to explaining the reduction in frequencies such as favourable economic conditions and aging of the driving population.

The reforms implemented throughout 2003 and primarily 2004 in Alberta, New Brunswick, Nova Scotia and Ontario appear to have reduced the cost as well as stabilized claims inflation to the extent anticipated. This has led to significant reductions in rate levels and has increased availability of automobile insurance in these markets. As many of the factors driving the unexpected decreases in collision frequency would also impact on bodily injury and accident benefit claims however, we remain cautious in our assessment of the lasting impact of these reforms.

The Facility Association results improved in 2004 from significant loss positions for the years 2001, 2002 and 2003 contributing $101.5 million to the overall improvement in the underwriting income in 2004 compared to 2003. The improvement in the Facility Association underwriting income results from significant rate increases implemented throughout 2003 and 2004, from an unexpected drop in claim frequencies and favourable development on prior accident years' claims. The impact of the reforms in addition to the adjusted rate levels, has caused the number of drivers insured through the Facility Association to decrease significantly in 2004.

SIGNIFICANT TRANSACTIONS

Initial Public Offering

The Company completed an IPO on December 15, 2004, pursuant to the filing of a prospectus dated December 9, 2004. As a result of the offering, 34.9 million common shares were issued at $26.00 per share for proceeds of $858.5 million net of underwriters' fees and other expenses. Pursuant to the underwriter's agreement for the prospectus, an over-allotment option was granted and then exercised subsequent to December 31, 2004 for which 5.2 million additional common shares were issued and net proceeds were received of $129.2 million. ING Groep N.V. remains the controlling shareholder with 70% of the shares issued and outstanding.

Acquisition of Allianz

Consistent with our growth strategy, the Company entered into a share and loan purchase agreement dated October 7, 2004 with Allianz AG and Allianz of America Inc. to acquire most of Allianz' operations in Canada. Included in the acquisition were two insurance companies, Allianz Insurance Company of Canada and Trafalgar Insurance Company of Canada which together were the thirteenth largest P&C insurance group in Canada with a 2.7% market share based on its 2004 direct written premiums of $797.6 million. Part of this ($193.5 million), referred to as the "AGR Business", related to insurance coverage of industrial risks for large Canadian companies and multi-national clients of Allianz AG. As described below, this business is not part of the acquisition. The acquired business is distributed exclusively through brokers including a network of brokers branded "Grey Power" which targets individual customers over the age of 50. We are integrating the acquired business into our operations over the next 12 to 18 months. Also part of the acquisition was a network of insurance brokerages, Canada Brokerlink, which sells the products of P&C insurance companies to individuals and small- to medium-sized businesses. The transaction was recorded with an effective date of November 30, 2004 and was completed December 8, 2004. The results of Allianz for the month of December 2004 have been included in the Company's consolidated statement of income for the year ended December 31, 2004, contributing direct premiums written for the month of $59.8 million, net premiums earned of $50.1 million and net income of $10.1 million.

As a result of the acquisition, the Company acquired all of the issued and outstanding shares of Allianz for cash consideration of $279.0 million and purchased certain debt of $91.0 million. The total purchase price for the shares of $283.4 million including transaction costs has been allocated on a purchase accounting basis, measured at fair value, to net tangible assets of $199.4 million, net intangible assets of $37.2 million and goodwill of $46.8 million (see note 18 of the accompanying consolidated financial statements).

The transaction excludes the AGR Business which is expected to be transferred, pursuant to a restructuring transaction, to the Canadian branch of Allianz Global Risks US Insurance Company ("AGR") in 2005. Until regulatory approval is obtained for the restructuring transaction, the AGR business is subject to a quota share agreement (a form of pro rata reinsurance) in which Allianz Global Risks Rückversicherungs AG has all of the risk. In addition, we have a corporate guarantee against any loss on the AGR business. Consequently, the AGR business has no net impact on the consolidated statement of income of the Company.

The fair value of the goodwill and intangible assets recorded at the effective acquisition date of November 30, 2004 is $32.9 million less than the estimate that had been disclosed at September 30, 2004 in our prospectus. This is the result of a $20.0 million higher book value at closing due to more net income from the business to be retained as well as the business to be excluded after closing, $11.1 million lower estimated integration costs than originally anticipated and $8.1 million lower fair value adjustments due to a higher market value adjustment on investments minus $6.3 million tax effect for these changes. Integration costs represent amounts to be incurred related to the integration of the operations of Allianz over the next 12 to 18 months and consist of provisions for involuntary employee terminations, redundant lease space, discontinuance of information systems and regulatory policyholder notification requirements. These estimates represent management's best judgement based on information known at this time and further adjustments may be identified.

The Company anticipates that it will also incur other transition costs of $11.6 million in 2005 and the first quarter of 2006 relating to the acquisition of Allianz. These costs will be charged to expense in the consolidated statements of income in the period that they are incurred as they do not qualify under purchase accounting rules for recognition as integration costs for the Allianz acquisition.

Intercompany Quota Share Retrocession Treaty

As at January 1, 2004, we commuted the inter-company quota share retrocession treaty related to the 2001 purchase of a portfolio from Zurich Insurance Company. Consequently, net policy liabilities previously ceded of $665.0 million were reassumed by us and investment assets in approximately an equivalent amount were received from the reinsurers. There was no significant impact on our current year's results from commuting the treaty.

SUMMARY OF QUARTERLY RESULTS

(in millions of dollars except for per share data)	2004 Q4	2004 Q3	2004 Q2	2004 Q1	2003 Q4	2003 Q3	2003 Q2	2003 Q1
Direct Premium Written	**$ 883.0**	**$ 921.6**	**$1,043.4**	**$ 727.8**	$ 851.6	$ 918.7	$ 990.2	$ 683.3
Total Revenues	**1,004.7**	**919.7**	**900.7**	**955.8**	808.0	777.6	735.3	694.5
Underwriting Income (loss)	**118.4**	**133.7**	**174.5**	**43.4**	(13.3)	44.4	44.6	(24.0)
Income (loss) before income taxes	**229.7**	**217.1**	**238.6**	**170.4**	47.8	95.4	85.6	(1.9)
Net Income	**173.1**	**163.6**	**172.4**	**115.1**	24.7	66.7	58.2	0.9
Earnings per Share								
Basic	**$ 1.69**	**$ 1.75**	**$ 1.84**	**$ 1.23**	$ 0.26	$ 0.71	$ 0.62	$ 0.01
Diluted	**1.67**	**1.75**	**1.84**	**1.23**	0.26	0.71	0.62	0.01
Earnings per adjusted share (1)								
Basic Pro Forma	**$ 1.35**	**$ 1.27**	**$ 1.34**	**$ 0.90**	$ 0.19	$ 0.52	$ 0.45	$ 0.01
Diluted Pro Forma	**1.29**	**1.22**	**1.29**	**0.86**	0.18	0.50	0.44	0.01

Note (1) Financial information included in earnings per adjusted share is not derived from the Company's financial statements and includes non-GAAP financial measures that do not have any standardized meaning prescribed by GAAP. They are therefore unlikely to be comparable to any similar measures presented by other companies. To facilitate comparison between historical and future performance, basic and diluted earnings per adjusted share is calculated on a pro forma basis as if the 128.5 million common shares outstanding after our reorganization and completion of the IPO were outstanding at the beginning of each of the eight quarters, and as if 133.7 million common shares, the difference being the shares issued in January 2005 as part of the over-allotment granted to the underwriters, had been outstanding during the past eight quarters. The calculation includes non-GAAP financial measures, and net income used for the pro forma earnings per adjusted share calculations has not been adjusted for interest income and expense that would have been realized by the Company from investing the net proceeds of the initial public offering and reducing the debt outstanding. By adding the respective quarters, the basic and diluted pro forma earnings per adjusted share for 2004 would have been $4.86 and $4.67, respectively, an increase of 315.4% and 313.3% over $1.17 and $1.13 for 2003, respectively.

Net income for the fourth quarter of 2004 of $173.1 million was significantly better than the $24.7 million for the comparative period in 2003. Direct written premiums were up $31.4 million or 3.7% in 2004 compared to 2003. The strong underwriting results experienced in the first nine months continued during the fourth quarter plus the addition of Allianz in December added $10.1 million of net income and $59.8 million of direct premiums written and net earned premiums of $50.1 million.

On a segmented basis, both personal and commercial insurance revenues were higher in 2004 than 2003. Both benefited from the addition of Allianz in December as well as the commutation of the quota share treaty increased the net premiums written and earned premiums for 2004. Income before income taxes increased significantly for personal insurance while commercial insurance reported a pre-tax loss of $3.4 million compared to a profit of $28.5 million for 2003.

Corporate and other pre-tax income of $4.0 million was a strong improvement over an $8.4 million 2003 loss.

RESULTS OF OPERATIONS

Segmented Information

We report our underwriting results through two operating segments of our P&C insurance business: personal insurance and commercial insurance plus the investment results of our P&C insurance subsidiaries is a third operating segment. In addition to these operating segments, our results include our non-operating segments, namely corporate and other activities, and realized investment and other gains (losses).

The following table presents selected information on our three operating segments, as well as corporate and other and realized investment and other gains.

Years ended December 31 (in millions of dollars)	**2004**	2003	2002
Revenue			
P&C insurance			
Net premiums earned			
Personal insurance	**$ 2,343.5**	$ 1,828.7	$ 1,563.9
Commercial insurance	**1,021.1**	932.2	773.2
Total net premiums earned	**$ 3,364.6**	$ 2,760.9	$ 2,337.1
Investments	**256.7**	208.8	181.7
Total P&C insurance	**$ 3,621.3**	$ 2,969.7	$ 2,518.8
Corporate and other	**27.2**	13.6	37.8
Realized investment and other gains	**132.4**	32.1	2.5
Total Revenue	**$ 3,780.9**	$ 3,015.4	$ 2,559.1

Years ended December 31 (in millions of dollars)	**2004**	2003	2002
Income (loss) before income taxes			
P&C insurance			
Underwriting income (loss)			
Personal insurance	**$ 339.2**	$ (35.5)	$ (63.5)
Commercial insurance	**130.8**	87.2	36.2
Total underwriting income (loss)	**470.0**	51.7	(27.3)
Investments	**247.0**	200.5	173.9
Total P&C insurance	**717.0**	252.2	146.6
Corporate and other	**6.4**	(57.3)	(117.9)
Realized investment and other gains	**132.4**	32.1	2.5
Total income (loss) before income taxes	**$ 855.8**	$ 227.0	$ 31.2

The following tables set forth the direct premiums written and underwriting results for our P&C insurance operating segments.

Years ended December 31 (in millions of dollars)	2004	2003	2002
Personal Insurance			
Direct premiums written			
Personal automobile	**$ 1,714.3**	$ 1,724.0	$ 1,568.4
Personal property	**700.9**	624.1	604.6
Total	**$ 2,415.2**	$ 2,348.1	$ 2,173.0
Net premiums earned	**2,343.4**	1,828.7	1,563.9
Expenses:			
Claims	**1,375.5**	1,342.8	1,229.2
Commissions	**379.9**	299.8	198.2
Premium taxes	**80.1**	69.2	55.4
General expenses	**168.7**	152.4	144.6
Total expenses	**$ 2,004.2**	$ 1,864.2	$ 1,627.4
Underwriting income (loss)	**$ 339.2**	$ (35.5)	$ (63.5)
Ratios:			
Claims ratio	**58.7%**	73.4%	78.6%
Commissions	**16.2%**	16.4%	12.7%
Premium taxes	**3.4%**	3.8%	3.5%
General expenses	**7.2%**	8.3%	9.2%
Expense ratio	**26.8%**	28.5%	25.4%
Combined Ratio	**85.5%**	101.9%	104.1%

Years ended December 31 (in millions of dollars)	2004	2003	2002
Commercial Insurance			
Direct premiums written			
Commercial automobile	**$ 301.0**	$ 291.0	$ 248.1
Commercial other	**859.7**	804.7	685.8
Total	**$ 1,160.7**	$ 1,095.7	$ 933.9
Net premiums earned	**$ 1,021.1**	$ 932.2	$ 773.2
Expenses:			
Claims	**530.0**	538.1	496.4
Commissions	**232.6**	182.5	155.8
Premium taxes	**36.7**	34.0	28.5
General expenses	**91.0**	90.4	56.3
Total expenses	**$ 890.3**	$ 845.0	$ 737.0
Underwriting income (loss)	**$ 130.8**	$ 87.2	$ 36.2

Years ended December 31	2004	2003	2002
Ratios:			
Claims ratio	**51.9%**	57.7%	64.2%
Commissions	**22.8%**	19.6%	20.2%
Premium taxes	**3.6%**	3.6%	3.7%
General expenses	**8.9%**	9.7%	7.3%
Expense ratio	**35.3%**	32.9%	31.2%
Combined Ratio	**87.2%**	90.6%	95.3%

The following tables show revenues and income (loss) before income taxes for our investments segment and our corporate and other segment.

Years ended December 31 (in millions of dollars)	2004	2003	2002
Investments			
Revenue			
Interest	$ **154.9**	$ 109.1	$ 98.0
Dividends	**98.7**	94.5	86.0
Other	**3.0**	5.2	(2.3)
Total	$ **256.7**	$ 208.8	$ 181.7
Expenses	**9.7**	8.3	7.8
Income (loss) before income taxes	$ **247.0**	$ 200.5	$ 173.9

Years ended December 31 (in millions of dollars)	2004	2003	2002
Corporate and other			
Revenue			
Commissions and advisory fees	$ **16.9**	$ 8.4	$ 35.8
Equity earnings	**8.1**	3.5	1.1
Interest	**3.1**	1.5	1.2
Other	**(0.9)**	0.1	(0.3)
Total	$ **27.2**	$ 13.5	$ 37.8
Expenses			
Commissions	$ **1.8**	$ 27.9	$ 83.4
General expenses	**7.3**	30.5	58.1
Interest on debt	**11.7**	12.6	14.2
Total	$ **20.9**	$ 70.9	$ 155.7
Income (loss) before income taxes	$ **6.4**	$ (57.4)	$ (117.9)

Realized investment and other gains (losses) include gains in fixed income securities, preferred shares, common shares and the sale of subsidiaries as shown in the following table:

Years ended December 31 (in millions of dollars)	**2004**	2003	2002
Realized investment and other gains (losses)			
Fixed income securities	$ **34.6**	$ 36.2	$ 18.0
Preferred shares	**(6.3)**	24.4	(13.4)
Common shares	**100.1**	(3.2)	10.2
Sale of subsidiaries	**4.0**	(25.3)	(12.4)
Total	$ **132.4**	$ 32.1	$ 2.5
After-tax total	$ **91.9**	$ 6.5	$ (8.4)

YEAR ENDED DECEMBER 31, 2004 COMPARED TO YEAR ENDED DECEMBER 31, 2003

Premiums written

Direct premiums written increased by 4.2% after the exclusion of Facility Association and Allianz written premiums which differs from the 3.8% increase in premiums of $3,575.9 million for the year ended December 31, 2004 compared to $3,443.8 million for 2003. The acquisition of Allianz accounted for $59.8 million of the increase in direct written premiums or 1.7%. Net premiums written increased by $642.4 million, or 21.7%, to $3,609.0 million in 2004 compared to $2,966.6 million in 2003. Excluding the impact of the quota share treaty related to a 2001 portfolio purchase which was commuted as of January 1, 2004, net written premiums increased by $72.2 million or 2.2% to $3,423.7 from $3,351.5 million. Net premium written by Allianz for the month of December 2004 accounted for $34.3 million of the increase or 1.1%.

Personal Insurance

Personal insurance direct premiums written increased by $67.1 million or 2.9% to $2,415.2 million in 2004 compared to $2,348.1 million in 2003.

Personal automobile insurance direct premiums experienced a small decrease (0.6%) in 2004 compared to 2003 but excluding the impact of Facility Association the growth was 3.5% while the policy count for personal automobile grew by 1.8%. The reforms in automobile insurance in Ontario, Alberta and the Atlantic provinces have resulted in reductions of average premiums by 7.3% in 2004 compared to 2003. The reforms in 2004 led to us taking rate decreases on policy renewals in Ontario of 12.4% in April, in Nova Scotia of 3% in November, in New Brunswick of 7.7% in October and in Alberta of approximately 8% in October. Belair initiated rate decreases of 10.1% in April and 0.9% in December in Ontario.

Growth in personal property insurance was favourable at 12.3% in 2004 compared to 2003 while the policy count grew by 2.9%. Our rates are still increasing in Ontario, Nova Scotia and New Brunswick in personal property. Our Insurance to Value program is also bringing additional premiums.

Commercial Insurance

Commercial insurance direct premiums written increased by $65.0 million, or 5.9%, to $1,160.7 million in 2004 compared to $1,095.7 million in 2003. Commercial, non-auto direct premiums written increased by $55.0 million, or 6.8%, in 2004 compared to 2003. This change is largely driven by rate increases on renewals averaging 6.8% throughout 2004 in addition to expansion of insured values. The policies in-force dropped by 2.5% as a result of a combination of corrective actions as well as increased competition.

Commercial automobile insurance direct premiums written increased by $10.0 million, or 3.4%, in 2004 compared to 2003 largely driven by a 3.5% growth in policies in-force.

Revenue

Revenue increased by $765.5 million, or 25.4%, to $3,780.9 million for the year ended December 31, 2004 compared to $3,015.4 million for the comparative period in 2003 due to an increase in net premiums earned, realized investments and other gains and investment income.

Net premiums earned increased by $603.7 million, or 21.9%, to $3,364.6 million in 2004 compared to $2,760.9 million in 2003. The 2003 non-recurring ceded premiums of $352.5 million related to a 2001 portfolio purchase quota share treaty, if excluded, would reduce the growth in net premiums earned to 8.1%. The net premium earned for Allianz for the month of December 2004 represents $50.1 million or 1.8% of the growth.

Investment income increased by $53.0 million, or 24.8%, to $267.0 million in 2004 compared to $214.0 million in 2003, which was largely due to the growth in invested assets that resulted from increased profits due to favourable underwriting results and the growth in our premium base. Most of our investment income is earned by the investment portfolios of our insurance subsidiaries. Investment income for those subsidiaries increased by $47.9 million, or 22.9%, to $256.7 million in 2004 from $208.8 million in 2003 due to growth in invested assets. Investment expenses were $9.7 million for 2004 compared to $8.3 million for 2003. The amount of interest and dividends earned during 2004 reflected a $2,148.9 million increase in the investment portfolio in 2004, due to positive cash flows from our insurance subsidiaries, Allianz investments of $1,061.5 million (which produced income for December) plus the transfer of investments of $665.0 million from reinsurers related to the quota-share treaty commuted as at January 1, 2004.

The average pre-tax yield of our investment segment, excluding realized investment gains and losses, was 5.7% and 5.9% for the year ended December 31, 2004 and 2003, respectively.

Realized investment and other gains increased by $100.3 million to $132.4 million in 2004 compared to $32.1 million in 2003. Included in these realized investment and other gains (losses) for the year ended December 31, 2004 was $6.9 million (2003 – $29.7 million) of losses on the other than temporary writedown of certain equities, including the writedown of mutual fund seed capital invested in our own mutual funds of $1.3 million in 2004 (2003 – $18.0 million).

The following table presents realized investment and other gains (losses) for the years ended December 31:

(in millions of dollars)	**2004**	2003
Fixed income	$ **34.6**	$ 36.2
Preferred shares	**(6.3)**	24.4
Common shares	**100.1**	(3.2)
Sale of subsidiaries	**4.0**	(25.3)
Total realized investment and other gains	$ **132.4**	$ 32.1

Commissions and advisory fees, which are commissions earned by our wholly-owned P&C insurance brokers and our broker/dealers, together with fees earned by our mutual fund manager, increased by $8.6 million to $16.9 million in 2004 compared to $8.4 million in 2003.

The income from investments in our P&C insurance brokerage subsidiaries (accounted for using the equity method) is included in investment income and was $8.1 million (2003 – $3.5 million).

Income (Loss) Before Income Taxes

For our P&C insurance operations, income (loss) before income taxes is driven by our investment income, described previously, and our underwriting income (loss).

Underwriting Income

Underwriting results reflect the revenues from net premiums earned discussed above, claims and claims adjustment expenses (the claims ratio) and commissions, premium taxes and general expenses (the expense ratio). Commissions and premium taxes are incurred as a percentage of earned premiums and commissions are adjusted by broker to reflect profit sharing commissions driven by underwriting profits. Underwriting profitability reached record levels in 2004, reflecting strong market conditions and a favourable claims environment and particularly reduced frequency.

Personal Insurance

Underwriting income (loss) from personal insurance in 2004 was $339.2 million, an improvement of $374.8 million compared to a loss of $35.5 million in 2003. This improvement was attributable to a decrease in the claims ratio to 58.7% in 2004 from 73.4% in 2003 due to improved claim costs which benefit from reduced frequency.

As previously noted, we benefited significantly from an unexpected reduction in claims frequency as well as improvement in the assumed underwriting results from the Facility Association. In addition, early indications are that the automobile reforms appear to be working. Our personal automobile business experienced the most significant improvement with its claims ratio decreasing to 59.8% in 2004 compared to 80.4% in 2003.

During 2004, direct premiums written assigned to us from the Facility Association totalled $81.8 million compared to $146.6 million in 2003, but generated higher net premiums earned of $109.2 million compared to $101.0 million in 2003 and a swing in underwriting results of $101.5 million to an underwriting income of $35.4 million compared to an underwriting loss of $66.1 million in 2003. Accordingly, the Facility Association combined ratio significantly improved from 165.4% in 2003 to 67.6% in 2004.

Although we had a number of catastrophic events during the year, the personal property frequency has also been dropping.

In addition to the pro rata share of the underwriting result of the Facility Association as noted above, our personal insurance operations act as one of the servicing carriers for the Facility Association and receive fees to offset expenses of administering policies on behalf of the Facility Association. The expenses of administering these policies are included in the loss adjustment and general expenses of our personal insurance operations. These fees increased by $27.1 million to $69.6 million in 2004 compared to 2003 due to increased premiums processed and a change in methodology by the association, which accelerated the payment of fees.

Our personal insurance expense ratio decreased to 26.8% for 2004 compared to 28.5% for 2003 due to decreases of 0.2% in the commission ratio, 0.4% in the premium taxes ratio and 1.1% in the general expense ratio.

Commissions increased by $80.1 million, or 26.7%, to $379.9 million in 2004 compared to $299.8 million in 2003. Regular commissions grew by approximately 21% while our Facility Association business decreased by 50.1% in 2004 compared to 2003. The remainder of the increase reflects higher profit sharing commissions paid to brokers of $77.9 million for 2004 compared to $45.8 million for 2003 as a result of the positive underwriting performance.

Premium taxes increased $10.9 million, or 15.6%, to $80.1 million in 2004 compared to $69.2 million in 2003 primarily due to the increase in net premiums earned during the period.

The general expense ratio to net earned premium decreased by 1.1 percentage points to 7.2% for 2004 compared to 8.3% in 2003. In absolute terms, general expenses increased by $16.3 million, or 10.7%, to $168.7 million in 2004 compared to $152.4 million in 2003. Excluding the impact of commuting the quota share treaty and the one month of Allianz expenses, general expenses had essentially no growth. Our workforce was stable in size, partly the result of holding vacant positions open for the transition of Allianz employees.

Commercial Insurance

Underwriting income from commercial insurance in 2004 was $130.8 million, an increase of $43.6 million compared to $87.2 million in 2003. This increase was primarily due to an improvement in the claims ratio to 51.9% in 2004 from 57.7% in 2003, which was largely attributable to an increase in rates on earned premium and favourable claims frequency. Indeed, the earned premium for commercial non-auto in 2004 reflects a combination of important rate increases in 2003 in excess of 15% as well as an average rate increase of 6.8% in 2004. The claims frequency in both commercial auto and non-auto dropped by roughly 15%.

In addition, claims and loss adjustment expenses decreased by $8.1 million, or 1.5%, to $530.0 million in 2004 compared to $538.1 million in 2003.

Our commercial insurance expense ratio increased to 35.3% for 2004 compared to 32.9% for 2003 due to an increase of 3.2% in the commission ratio, no change in the premium taxes ratio and a decrease of 0.8% in the general expense ratio.

Commissions increased by $50.1 million, or 27.5%, to $232.6 million in 2004 compared to $182.5 million in 2003 and net premiums earned grew by 9.5% which generated increased commissions. The remainder of the increase reflects higher profit sharing commissions of $49.3 million for 2004 compared to $24.3 million for 2003 as a result of the strong underwriting profits.

Premium taxes increased $2.7 million, or 8.0%, to $36.7 million in 2004 compared to $34.0 million in 2003 due to the increase in net premiums earned during the period.

The general expense ratio to net earned premium decreased by (0.8) percentage points to 8.9% for 2004 compared to 9.7% in 2003. In absolute terms general expenses increased by $0.6 million, or 0.6%, to $91.0 million in 2004 compared to $90.4 million in 2003. This was primarily the result of a minor reduction in policies in force.

Expenses

The majority of expenses, $2,894.5 million or 99.4% of the total expenses of $2,913.4 million for the year ended December 31, 2004, were part of our P&C insurance operations with the remainder comprising our P&C insurance brokers, investment operations, mutual funds and non-recurring charges related to a 2001 portfolio purchase. For the year ended December 31, 2003, $2,709.2 million or 97.6% of the total expenses of $2,775.8 million were part of the P&C insurance operations.

For our non-P&C insurance operations, losses from corporate and other were lower in 2004 than 2003 due mainly to a reduction in expenses related to a 2001 portfolio purchase which totalled $4.3 million in 2004 (2003 – $41.8 million) and consisted of commission expenses of $4.3 million for 2004 (2003 – $25.8 million) and general expenses of nil for 2004 (2003 – $16.0 million).

General expenses of our non-P&C insurance operations other than a 2001 portfolio purchase for 2004 were lower by $5.7 million primarily due to lower expenses in our P&C insurance brokers.

Income Taxes

Income tax expense for 2004 was $231.6 million compared to $76.5 million for 2003. This increase was primarily due to higher pre-tax income as a result of increased underwriting profits for the P&C insurance subsidiaries. The significant difference between the statutory rate and the effective rate came from non-taxable investment income, which lowered the tax expense by $42.3 million (2003 – $32.2 million). Although the amount of non-taxable investment income remained substantially the same between 2003 and 2004, the percentage impact of these non-taxable items on the effective tax rate is lower in 2004 because of higher overall underwriting income. Amounts of taxes related to non-deductible expenses and losses for which no tax recovery was recognized has a relatively significant impact on the effective rate in 2003, but did not materially impact the effective rate in 2004 for the same reasons. Note 9 to our consolidated financial statements summarizes the income tax rate reconciliation.

BALANCE SHEET ANALYSIS

Premiums and Other Receivables

Premiums written are either billed to brokers or directly to policyholders. For 2004, 37% of billing distribution was attributable to brokers and 63% was attributable to policyholders. Brokers' accounts for a particular month are due two months later. Policyholders' accounts are either due on receipt or in installments over the policy term. Premium receivables from brokers and policyholders were $163.8 million and $1,076.0 million, respectively, as of December 31, 2004 and $130.8 million and $920.1 million, respectively, for December 31, 2003.

Other receivables consist of amounts due from the Facility Association and other pools, other insurers and other which were $202.8 million, $137.3 million and $62.5 million, respectively, as of December 31, 2004 and $139.0 million, $238.4 million and $19.2 million, respectively, as of December 31, 2003.

Investments

We have an investment policy that seeks to provide an attractive risk-return profile over the medium to long-term. In developing our investment policy, we take into account the current and expected condition of capital markets, the historic return profiles of various asset classes and the variability of those returns over time, the availability of assets, diversification needs and benefits, regulatory capital required to support the various asset types, security ratings and other material variables likely to affect the overall performance of our investment portfolio. The overall risk profile of our investment portfolio is designed to balance the investment return needs of our liabilities while optimizing the investment opportunities available in the marketplace. Management monitors and enforces compliance with our investment policy. The majority of our investment portfolio is invested in well-established, active and liquid markets. Fair value for most investments is determined by reference to quoted market prices. In cases where an active market does not exist, fair value is estimated by reference to recent transactions or current market prices for similar investments.

Our investment portfolio is managed on a total return basis which views realized gains and losses as important and recurring components of the return on investment and consequently of income, although the timing of realizing gains or losses may be unpredictable. Our portfolio construction methodology takes into account the availability and liquidity of potential investments. We also set constraints by economic sector and by investment strategy to provide diversification across industries. We believe this diversification of exposure across a range of business sectors provides positive investment benefits. At the same time, economic difficulties concentrated in a select business sector are dampened.

Due to potential tax ramifications of these strategies, specific focus is placed on the management of the portfolio to optimize the after-tax total return.

The following table sets forth our cash and invested assets as at December 31, 2004 and 2003.

As at December 31

	2004			2003		
(in millions of dollars)	**Carrying Value ("CV")**	**% of CV**	**Fair Value**	CV	% of CV	Fair Value
Cash and cash equivalents	**$ 357.2**	**5.6%**	**$ 357.2**	$ 104.6	2.6%	$ 104.6
Fixed income securities[1]	**3,685.1**	**57.9%**	**3,776.5**	1,660.4	41.9%	1,690.3
Commercial mortgages	**78.7**	**1.2%**	**83.3**	113.1	2.8%	118.0
Preferred shares	**1,069.6**	**16.8%**	**1,136.3**	1,096.8	27.7%	1,152.1
Common shares[1]	**997.7**	**15.7%**	**1,077.2**	782.4	19.7%	846.1
Other investments	**179.3**	**2.8%**	**179.3**	208.9	5.3%	208.9
Total cash and invested assets	**$ 6,367.6**	**100.0%**	**$ 6,609.8**	$ 3,966.2	100.0%	$ 4,120.0

(1) Includes seed capital investment in affiliated mutual funds, carrying value as at December 31, 2004 – $155.0 million (December 31, 2003 – $157.1 million).

Cash and cash equivalents and investments increased by $2.4 billion or 60.5% to $6.4 billion at December 31, 2004 compared to 2003. The Allianz acquisition added $1,061.5 million and the commutation of a quota share also added $665.0 million. In addition, organic business growth and positive investment returns contributed to portfolio growth.

Included in the fixed income and preferred share portfolio at December 31, 2004 were approximately $26.7 million of securities with a rating below investment grade. The average duration of our publicly traded fixed income portfolio was 6.2 years on December 31, 2004. Our exposure to debt private placements and secured commercial mortgages remains relatively minor.

Other investments consist of loans to brokers with carrying value of $156.3 million as of December 31, 2004 (December 31, 2003 – $165.5 million), equity investments in brokers with carrying value of $13.4 million as of December 31, 2004 (December 31, 2003 – $14.3 million) and other commercial loans with carrying value of $9.6 million as of December 31, 2004 (December 31, 2003 – $29.1 million).

The following table sets forth our exposure to the ten largest industrial sectors for our combined fixed income securities and preferred and common share portfolios as at December 31, 3004 and 2003.

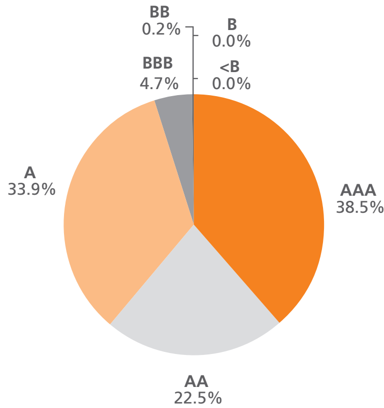
As at December 31

	2004			2003		
(in millions of dollars)	**Carrying Value ("CV")**	**% of CV**	**Fair Value**	CV	% of CV	Fair Value
Diversified financial services	**$ 1,321.4**	**22.0%**	**$ 1,379.6**	$ 746.5	19.3%	$ 780.5
Banks	**636.2**	**10.6%**	**674.1**	530.2	13.7%	559.2
Utilities	**435.3**	**7.2%**	**461.9**	268.4	6.9%	284.7
Telecommunication services	**292.8**	**4.9%**	**299.2**	213.2	5.5%	216.7
Insurance	**246.3**	**4.1%**	**266.7**	169.7	4.4%	178.7
Oil and gas	**184.3**	**3.1%**	**188.7**	108.3	2.8%	110.0
Special purpose	**152.0**	**2.5%**	**155.5**	46.8	1.2%	48.7
Real estate	**124.7**	**2.1%**	**132.3**	127.7	3.3%	133.3
Media	**106.8**	**1.8%**	**109.6**	75.2	1.9%	77.6
Food & Drug Retail	**52.2**	**0.9%**	**54.7**	47.0	1.2%	49.4
Total top ten sectors	**$ 3,551.9**	**59.1%**	**$ 3,722.3**	$ 2,332.9	60.4%	$ 2,438.8
Government	**1,805.7**	**30.0%**	**1,854.9**	960.7	24.9%	974.8
Other	**652.7**	**10.9%**	**675.4**	568.0	14.7%	601.8
Total investment assets	**$ 6,010.4**	**100.0%**	**$ 6,252.6**	$ 3,861.6	100.0%	$ 4,015.4

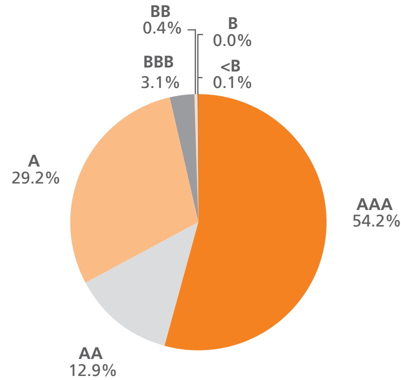
The aggregate rating of our fixed income portfolio is maintained at "A+" or higher based on S&P ratings. Additional constraints by rating category govern the issuer specific exposure. The weighted average quality ratings of our fixed income and preferred share portfolios as at December 31, 2004 was "AA–" by S&P. In mapping the preferred share ratings, a "P1" is considered to be a single A rating. Our relative exposure to fixed income securities has increased recently as the availability of economically attractive alternative investments has slightly diminished. At year end, the aggregate credit quality of the fixed income portfolio reflected the addition of the Allianz fixed income assets which had a lower proportional exposure to AAA rated securities. In addition, the year end fixed income portfolio credit rating distribution showed the results of tactical credit positioning in the portfolio.

The following graphs set forth our fixed income portfolio by credit quality according to S&P as at December 31, 2004 and 2003.

FIXED INCOME BY CREDIT QUALITY
AS AT DECEMBER 31, 2004
CARRYING VALUE

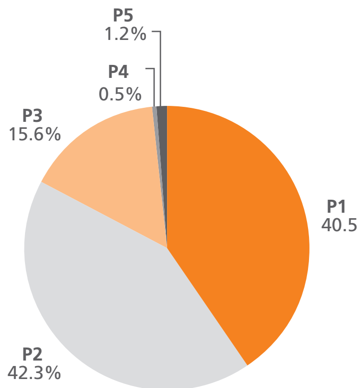


FIXED INCOME BY CREDIT QUALITY
AS AT DECEMBER 31, 2003
CARRYING VALUE

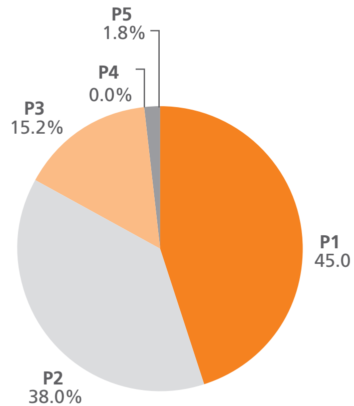


Exposure to the preferred share asset class contributes positively to the overall after-tax return of the investment portfolio. Our positive earnings position facilitates material exposure to preferred shares in our investment portfolio. With an emphasis on after-tax earnings, we are able to capture the incremental value offered by these securities. The following charts set forth our preferred share portfolio by credit quality according to S&P as at December 31, 2004 and 2003.

PREFERRED SHARES BY CREDIT QUALITY
AS AT DECEMBER 31, 2004
CARRYING VALUE



PREFERRED SHARES BY CREDIT QUALITY
AS AT DECEMBER 31, 2003
CARRYING VALUE



Common equity exposure focuses primarily on high dividend paying equities. We seek enhanced return by identifying and investing in shares likely to increase their dividends or pay a special one-time dividend. We undertake intensive analysis of investment opportunities to identify special dividend candidates. Similar evaluations are conducted to assess investment candidates most likely to increase dividends paid. We also manage the equity portfolios to achieve additional dividend payouts. Through active management, we seek incremental dividend income versus a static portfolio.

The results of our common equity strategies generally depend on overall equity market trends. Accordingly, many factors outside of our control affect the aggregate increases or decreases in the equity portfolios. We seek to select investments that will provide incremental value in excess of our benchmarks. Unforeseen events affecting specific companies, industries or sectors can have significant detrimental effects on the return profile of the equity investments.

Claim Liabilities

Provision for claims consists of the gross amount of individual case reserves established by us and management's estimate of claims incurred but not reported ("IBNR") based on the volume of business currently in force and historical claims experience. To ensure that our provision for claims (often called "reserves") is, to the extent possible, adequate, management has established procedures to ensure that the provision for claims at our insurance operations is subject to multiple reviews, including those by independent actuaries. We strive to establish adequate provisions at the original valuation date. It is our objective to have favourable development relative to past estimates.

We evaluate the adequacy of our reserves on a quarterly basis. Every quarter, for each line of business, we compare actual and expected claims development. To the extent that the actual results differ from expected development, assumptions are re-evaluated and new estimates are derived.

If our reserves prove to be deficient in the future, we will have to increase our reserves by the amount of such deficiency and incur a charge to earnings in the period in which such reserves are increased. The uncertainties regarding our reserves could result in a liability exceeding the reserves by an amount that would be material to our financial condition or results of operations in a future period. Future development could be significantly different from the past due to many unknown factors.

Net loss reserves included in the consolidated balance sheet at December 31, 2004 increased by 57.5% ($1.3 billion) during 2004 to $3.5 billion. Excluding the effect of the net reserves of the Allianz acquisition completed in 2004 ($680.5 million) and the Quota-Share in 2003 (- $527.9 million), loss reserves increased 2.9% ($81.5 million) during 2004. This was mainly the result of direct earned premium growth being offset by improved frequency, automobile reforms and reduced assumed reserves from statutory automobile pools (e.g. Facility Association). Further, claims liabilities in Canada determined in accordance with accepted actuarial practice, take into account the time value of money and provisions for adverse deviation. Accordingly, changes in these estimates that may be periodically necessary will affect the valuation of the net loss reserves. Contributing to an increase in net loss reserves was the use of a lower discount rate (4.86% average in 2004, excluding Allianz; 5.35% in 2003). The provisions for adverse deviation were set on a basis consistent with 2003.

The following table, which excludes Allianz, shows the development of the provisions for claims reserve including loss adjustment expenses for the 10 most recent accident years, with the estimated amount of each accident year development shown for the subsequent ten years. The initial reserves set up at the end of the year are re-evaluated over time to determine their redundancy or deficiency. This is based on actual payments in full or partial settlement of claims, as well as current estimates of the reserves required for claims still open or claims still unreported. We have experienced cumulative favourable development for accident years 2003, 1998, 1997, 1996, 1995, 1994 and prior years, and unfavourable development for accident years 2002, 2001, 2000 and 1999. In those years in which unfavourable development occurred, the overall P&C insurance industry had similar adverse development caused by unexpected change in claim patterns, in particular relating to automobile insurance in Ontario. The development of all prior accident years during 2004 has been favourable by $70.5 million (3.1%) with every accident year being favourable except for 1999 and 1994 and prior years. This came entirely from automobile, including the automobile pools which also developed favourably, partly offset by adverse development on commercial general liability generated by increased reserves on a few large claims.

Historical Loss Reserve Development

Accident Year	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994 and prior
Reserve Originally Estimated	814.9	711.9	655.3	607.7	557.2	531.2	547.2	493.4	450.2	949.3
Reserve re-estimated as of										
One Year Later	750.0	721.6	716.8	607.7	550.7	507.6	423.9	447.3	410.6	929.0
Two Years Later		721.4	730.6	648.4	578.1	508.9	407.1	441.5	392.3	882.1
Three Years Later			729.6	664.2	607.4	504.2	421.5	445.2	397.7	895.0
Four Years Later				657.4	613.0	518.8	421.9	435.4	396.2	923.5
Five Years Later					614.4	520.1	420.9	433.8	382.7	901.9
Six Years Later						517.5	426.3	432.0	383.9	884.7
Seven Years Later							424.6	417.9	388.3	875.2
Eight Years Later								414.4	392.6	873.4
Nine Years Later									387.8	881.7
Ten Years Later										895.1
Development during 2004 deficiency (redundancy)	(64.9)	(0.2)	(1.0)	(6.8)	1.5	(2.6)	(1.7)	(3.5)	(4.8)	13.5
	(8.0%)	(0.0%)	(0.2%)	(1.1%)	0.3%	(0.5%)	(0.3%)	(0.7%)	(1.1%)	1.4%
Cumulative deficiency (redundancy)	(64.9)	9.5	74.2	49.6	57.3	(13.7)	(122.6)	(79.0)	(62.4)	(54.1)
	(8.0%)	1.3%	11.3%	8.2%	10.3%	(2.6%)	(22.4%)	(16.0%)	(13.9%)	(5.7%)

At the time of the acquisition of Allianz and Trafalgar, the acquired net loss reserves were adjusted to bring them on a consistent basis with the other insurance subsidiaries of the Company following a number of internal and independent reviews. The recorded adjustments were in the magnitude of a $70 million increase in reserves (approximately $50 million of losses incurred but not reported, $10 million

of unallocated loss adjustment expenses and $10 million of provision for adverse development). Also, a new quota share reinsurance treaty was put in place with Allianz Global Risk Rückversicherungs-AG to cede the run-off of the business that has not been acquired by the Company. This quota share is expected to remain in place until a transfer and assumption of that business which is expected to receive regulatory approval in the first half of 2005.

Reinsurance

Our primary reinsurer is ING Re (Netherlands) N.V. (which is not licensed in Canada) representing 3.9% and 84.1% of our reinsurers' share of policy liabilities as at December 31, 2004 and 2003, respectively. This affiliated reinsurer is rated AA by Standard and Poor's. The decrease in 2004 was due to the commutation of the quota share treaty related to the 2001 portfolio purchase. As part of the Allianz transaction relating to the AGR Business, there are assumed and ceded policy liabilities of $13.0 million and $447.0 million respectively. These liabilities will be transferred to the Canadian branch of AGR in 2005 when regulatory approval is obtained. In addition, we have reinsurance treaties with several unaffiliated reinsurers, all of whom meet our financial strength rating requirements, which are described below. Excluding our affiliated reinsurer, ING Re and the AGR business, each of our third party reinsurers has immaterial amounts of reinsurance payable to us.

We purchase reinsurance to reduce our exposure to the insurance risks that we assume in writing business. Generally our maximum net retention on a single risk, whether property or liability, is $2.5 million. In a number of cases, such as special classes of business or types of risks, the retention is lower through specific treaties or by using facultative reinsurance, which is the reinsurance of individual risks by offer and acceptance. It is not our practice to assume reinsurance outside of our group of companies.

In 2004, for multi-risk events or catastrophes, our retention is $5.0 million with a reinsurance coverage limit of $1.2 billion. For 2004, we have also retained 10% of the exposure from $12.5 million to $600.0 million. For 2005 we have increased our retention to $17.5 million with a limit of $1.2 billion with 10% retention from $25.0 million to $600.0 million.

We strive to minimize the credit risk related to purchasing reinsurance through adherence to our internal reinsurance guidelines. We evaluate the financial condition of our reinsurers and monitor concentrations of credit risk to minimize our exposure to losses resulting from reinsurers' insolvencies. We require a minimum A.M. Best financial strength rating for our unaffiliated licensed reinsurers of "A-" at inception of a treaty. We work closely with our reinsurers and have maintained working relationships with our key reinsurers for many years. Management concluded that no provision was necessary for uncollectible reinsurance as at December 31, 2004.

In accordance with industry practice, our reinsurance recoverables with licensed Canadian reinsurers are generally unsecured, because Canadian regulations require these reinsurers to maintain minimum asset and capital balances in Canada to meet their Canadian obligations. However, policy liabilities rank in priority to any subordinate creditors a reinsurer may have. For reinsurance recoverables with non-licensed reinsurers, we maintain security against reinsurance recoverables in the form of cash, letters of credit and/or assets held in trust accounts. At December 31, 2004, we were the assigned beneficiary of

such trust accounts totalling $458.7 million (December 31, 2003 – $923.9 million) in guarantees from unlicensed reinsurers. These amounts included $56.2 million as at December 31, 2004 (December 31, 2003 – $922.6 million) from an affiliated reinsurer. Trust accounts were held in support of policy liabilities of $349.5 million as at December 31, 2004 (December 31, 2003 – $761.3 million) and can be accessed if these reinsurers are unable to meet their obligations. The majority of the change in the trust accounts amount from December 31, 2003 to December 31, 2004 relates to the commutation of the reinsurance arrangements related to a 2001 portfolio purchase and AGR business.

Share Capital

As of February 15, 2005, there were 133.7 million common shares and one Special Share issued and outstanding. The Special Share is convertible into one common share. ING Groep N.V. holds approximately 70% of the issued and outstanding common shares and the Special Share. See Notes 16 and 23 to our audited consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

The purpose of liquidity management is to ensure there is sufficient cash to meet all of our financial commitments and obligations as they fall due. We believe we have the flexibility to obtain, from internal sources, the funds needed to fulfill our cash requirements during the current financial year and to satisfy regulatory capital requirements. However, such funds may not provide sufficient capital to enable us to pursue additional market opportunities.

The liquidity requirements of our P&C insurance subsidiaries have historically been met primarily by funds generated from operations, asset maturities and income and other returns received on investments. Cash provided from these sources is used primarily for claims and claim adjustment expense payments and operating expenses. Catastrophe claims, the timing and amount of which are inherently unpredictable, may create increased liquidity requirements. Additional sources of cash flow include the sale of invested assets and financing activities. As long as we continue to grow and remain profitable, cash flows should continue to be available for investment. We believe that our future liquidity needs will be met from all of the above sources.

Net cash flows are generally invested in marketable securities. We closely monitor the duration of these investments, and investment purchases and sales may be executed with the objective of having adequate funds available to satisfy our maturing liabilities if needed. As our investment strategy focuses on asset and liability durations, and not specific cash flows, asset sales may be required to satisfy obligations and/or rebalance asset portfolios.

Both our liquidity and our capital base remain strong. Net cash provided from operations was $1,386.9 million in 2004 and $572.0 million in 2003. In addition we have an uncommitted revolving facility with a Canadian chartered bank of $50 million, none of which was drawn at December 31, 2004 or at the date of preparation of this document. We are not currently planning to make any significant capital expenditures.

On August 27, 1998, we obtained an unsecured loan of $127.0 million from an affiliate with a maturity date of August 27, 2006 and at an annual interest rate of 6.27%. The interest is payable in arrears semi-annually. During 2004, we repaid a $22.0 million credit facility with a Canadian chartered bank which was fully drawn and a $75.0 million loan from an affiliate. The completion of the IPO described previously strengthened our capital base and provided resources to repay debt, including a $200 million bridge loan used to acquire Allianz. In addition, the preferred shares in the amount of $259.1 million held by ING Insurance International B.V. were redeemed for a note payable which had a outstanding balance of $129.2 million at December 31, 2004. This note was repaid in January 2005 from the proceeds of the over-allotment option reducing our debt outstanding to $127.0 million. See Note 15 of the consolidated financial statements.

As at December 31, 2004 the Company is adequately capitalized to support the growth in premium volume of our insurance subsidiaries. Our insurance subsidiaries have capital of $442.3 million in excess of the minimum supervisory target of 150% as calculated under the Minimum Capital Test ("MCT") for solvency as defined by our insurance regulators at December 31, 2004 compared to $315.6 million at December 31, 2003. Based on the dividend restrictions imposed by applicable insurance laws, the total amount of dividends available for payment from our subsidiaries during 2005 is $528.1 million plus any 2005 earnings subject to MCT limitations.

The Board of Directors of the Company has declared a quarterly cash dividend of 16.25 cents per common share (for a total payout of $21.7 million) payable on March 31, 2005 to shareholders of record on March 21, 2005. This dividend represents 2.5% of the IPO share price on an annualized basis.

Contractural Obligations

(in millions of dollars)	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Long Term Debt	$ 256.2	$ 129.2	$ 127.0	$	$
Operating Leases	279.6	45.0	78.8	58.0	98.0
Other Long Term Obligations (1)	94.3	27.5	30.8	17.1	18.9
Total Contractual Obligations	$ 630.1	$ 201.7	$ 236.6	$ 75.1	$ 116.9

(1) The Company earns fee income for servicing claims on behalf of the Facility Association. The fee income is deferred and recognized in income on a basis consistent with the services rendered.

RISK MANAGEMENT

As a provider of insurance products, effective risk management is fundamental to our ability to protect the interests of both our customers and our shareholders. We are exposed to potential loss from various market risks, including interest rate and equity market fluctuation risk, credit risk, liquidity risk, and to a lesser extent foreign currency risk and derivative risk.

Market Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates, and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets

are traded. Below is a discussion of our primary market risk exposures and how those exposures are currently managed. Our market risk sensitive instruments, including derivatives, are primarily entered into for purposes of mitigating risk.

The primary market risk to the investment portfolio is interest rate risk associated with investments in fixed income securities. Our exposure to foreign exchange risk is not significant. We have no direct commodity risk.

For our investment portfolio, there were no significant changes in our primary market risk exposures or in how those exposures are managed compared to the year ended December 31, 2003. We do not currently anticipate significant changes in our primary market risk exposures or in how those exposures are managed in future reporting periods based upon what is known or expected to be in effect in future reporting periods.

Interest Rate and Equity Market Fluctuations

Movements in short-term and long-term interest rates, as well as fluctuations in the value of equity securities, affect the level and timing of recognition of gains and losses on securities we hold, and cause changes in realized and unrealized gains and losses. Generally, our investment income will be reduced during sustained periods of lower interest rates as higher yielding fixed income securities are called, mature, or are sold and the proceeds are reinvested at lower rates. During periods of rising interest rates, the market value of our existing fixed income securities will generally decrease and our realized gains on fixed income securities will likely be reduced. Realized losses will be incurred following significant increases in interest rates.

Generally, declining interest rates result in unrealized gains in the value of fixed income securities we continue to hold, as well as realized gains to the extent the relevant securities are sold. General economic conditions, political conditions and many other factors can also adversely affect the stock markets and, consequently, the value of the equity securities we own.

Credit Risk

Credit risk is the possibility that counterparties may not be able to meet payment obligations when they become due. We assume counterparty credit risk in many forms. A counterparty is any person or entity from which cash or other forms of consideration are expected to extinguish a liability or obligation to us. Our credit risk exposure is concentrated primarily in our fixed income and preferred share investment portfolios and, to a lesser extent, in our reinsurance recoverables.

Our risk management strategy and investment policy is to invest in debt instruments of high credit quality issuers and to limit the amount of credit exposure with respect to any one issuer. We attempt to limit our credit exposure by imposing fixed income portfolio limits on individual corporate issuers based upon credit quality. Currently our fixed income portfolio limits are 3% for issuers rated “AA-” and above, 2% for issuers rated “A-” to “A+”, 1% for issuers rated “BBB-” to “BBB+”, 0.34% for issuers rated “BB-” to “BB+” and 0.19% for insurers rated “B-” to “B+”. We use the lower of Dominion Bond Rating Service Limited or S&P ratings to determine an issuer’s rating. These constraints may be revised from time to time as we deem appropriate.

Foreign Exchange Risk

Foreign exchange risk is the possibility that changes in exchange rates produce an unintended effect on earnings and equity when measured in domestic currency. This risk is largest when assets backing liabilities are payable in one currency and are invested in financial instruments of another currency.

We are exposed to some foreign exchange risk arising from the investment in some of our U.S. dollar-denominated assets. Total invested assets denominated in U.S. dollars were less than 1.3% of our total invested assets at December 31, 2004. Our general policy is to minimize foreign currency exposure.

We mitigate foreign exchange rate risk by buying or selling successive monthly foreign exchange forward contracts. Foreign exchange forward contracts are commitments to buy or sell foreign currencies for delivery at a specified date in the future at a fixed rate. Forward contracts are transacted in over-the-counter markets. The notional amount of these forward contracts approximates the market value of the foreign denominated investments covered by these contracts.

Derivatives

Our use of derivatives exposes us to a number of risks including cash flow risk and fair value risks. However, we do not use a significant quantity of derivatives.

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. We mitigate cash flow risk by entering into foreign exchange swaps, whereby foreign denominated principal and fixed interest receipts are sold in exchange of Canadian dollars. These swaps are transacted in over-the-counter markets.

The notional amount of these swaps approximates the nominal value of the foreign denominated investments covered by these swaps. According to GAAP, these swaps are considered as effective hedges of cash flow risk.

The fair value of exchange-traded derivative financial instruments is based on quoted market rates. The fair value of over-the-counter derivative financial instruments is an estimate and is determined using valuation models that incorporate prevailing foreign exchange rates, interest rates, market rates and prices on underlying instruments with similar maturities and characteristics.

The fair value reflects the estimated amount that we would have received or might have had to pay to terminate the instruments as at December 31, 2004. See Note 5 to our audited consolidated financial statements.

TRANSACTIONS WITH RELATED PARTIES

We enter into transactions with related parties. These transactions consist principally of management and advisory services rendered by our controlling shareholder, ING Groep N.V. and affiliated companies, reinsurance by an affiliated company and financing by ING Group. We also render advisory and administrative services to our affiliated companies. These transactions are carried out in the normal course of operations. Accordingly, the management and advisory services are measured at the exchange amount, which approximates fair value and reinsurance and financing costs reflect market rates at the time of the transaction. See Note 8 to our audited consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Our significant accounting policies are disclosed in Note 2 to our audited consolidated financial statements. The preparation of our financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the amounts reported in our financial statements. These estimates and assumptions principally relate to the establishment of reserves for claims and expenses, impairments of investment securities, amounts recoverable from our reinsurers and certain other assets. As more information becomes known, these estimates and assumptions could change and impact future results. The most significant estimates and assumptions we make in preparing our financial statements are described below.

Policy Liabilities

Policy liabilities consist of provisions for claim liabilities and premium liabilities.

Claim liabilities are maintained to cover our estimated ultimate liability for losses and loss adjustment expenses with respect to reported and unreported claims incurred as of the end of each accounting period. The provision for unpaid claims and adjustment expenses is first determined on a case-by-case basis as claims are reported and then reassessed as additional information becomes known. The provision also accounts for the future development of these claims including claims incurred but not reported. Reserves do not represent an exact calculation of liability, but instead represent estimates developed using projection techniques in accordance with Canadian accepted actuarial practice. These reserve estimates are expectations of the ultimate cost of settlement and administration of claims based on our assessment of facts and circumstances then known, our review of historical settlement patterns, estimates of trends in claims severity and frequency, legal theories of liability and other factors.

Variables in the reserve estimation process can be affected by both internal and external events, such as changes in claims handling procedures, economic inflation, legal trends and legislative changes. Many of these items are not directly quantifiable, particularly on a prospective basis. Additionally, there may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the insurer. Reserve estimates are refined in a systematic ongoing process as historical loss experience develops and additional claims are reported and settled. Because the establishment of reserves is an inherently uncertain process involving estimates, current reserves may not be sufficient. Adjustments to reserves, both positive and negative, are reflected in the statement of income of the period in which such estimates are updated.

The provision for unpaid claims and adjustment expenses is discounted to take into account the time value of money. It also includes a provision for adverse deviation, as required by Canadian accepted actuarial practice. The appointed actuary of our P&C insurance subsidiaries, using appropriate actuarial techniques, evaluates the adequacy of our policy liabilities.

Premium liabilities are considered adequate when the unearned premium reserve (after deducting any deferred acquisition cost asset) is at least equal to the present value, at the balance sheet date, of cash flow of the claims, expenses and taxes to be incurred after that date on account of the policies in force at that date or at an earlier date. Deferred acquisition costs comprise commissions, premium taxes and

expenses directly related to the acquisition of premiums. They are deferred to the extent that they are recoverable from unearned premiums, after considering the related anticipated claims, expenses and investment income in respect of these premiums. Deferred acquisition costs are amortized on the same basis as the premiums are recognized in income.

A premium deficiency would be recognized immediately by a charge to the statement of income as a reduction of deferred acquisition costs to the extent that the unearned premiums reserve, plus anticipated investment income, are not adequate to recover all deferred acquisition costs and related claims and expenses. If the premium deficiency was greater than unamortized deferred acquisition costs, a liability would be accrued for the excess deficiency.

Investments

We obtain values for actively traded securities from external pricing services. For private placements, commercial mortgages and a small number of infrequently traded securities, we obtain quotes from brokers or we estimate values using internally developed pricing models. These models are based on common valuation techniques and require us to make assumptions regarding credit quality, liquidity and other factors that affect estimated values.

Impairment of investment securities results in a charge to earnings when a market decline in the value of an investment to below cost is other than temporary. Our methodology to identify potential impairments requires professional judgment and places particular emphasis on those securities with unrealized losses of 25% or greater of the book value where that unrealized loss has been outstanding for more than six months. Members of our investment and accounting departments meet quarterly to assess impairments and report quarterly to the Investment Committee on important investments that are included on a “Watch-list”. Management assesses which of these securities are other than temporarily impaired. Assessment factors include, but are not limited to, the financial condition and rating of the issuer of the security, any collateral held and the length of time the market value of the security has been below cost. Any impairments are recognized when the assessment concludes that there is objective evidence of impairment. Each quarter, any security with an unrealized loss that is determined to have been other than temporarily impaired is written down to its expected recoverable amount, with the amount of the writedown reflected in our statement of income for that quarter. Previously impaired securities continue to be monitored quarterly, with additional writedowns taken quarterly if necessary.

There are inherent risks and uncertainties involved in making these judgments. Changes in circumstances and critical assumptions such as a weak economy, a pronounced economic downturn or unforeseen events which affect one or more companies or industry sectors could result in additional writedowns in future periods for impairments that are deemed to be other than temporary. See also Note 2 to our audited consolidated financial statements for a description of our impairment policies.

Reinsurance

Reinsurance recoverables include amounts for expected recoveries related to claims liabilities as well as the portion of the reinsurance premium which has not yet been earned. The cost of reinsurance is accounted for over the terms of the underlying reinsured policies using assumptions consistent with

those used to account for the policies. Amounts recoverable from reinsurers are estimated in a manner consistent with claim and claim adjustment expense reserves and are reported in our consolidated balance sheet. The ceding of insurance does not discharge our primary liability to our insureds. An estimated allowance for doubtful accounts is recorded on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, management's experience and current economic conditions.

Goodwill and other Intangibles

Pursuant to GAAP, goodwill represents the excess of the purchase price of acquisitions over the fair value of the underlying net assets. Prior to January 1, 2002, goodwill was amortized and charged to income over its estimated useful life. On January 1, 2002, we adopted the new accounting standards for Business Combinations and Goodwill and Other Intangibles, as prescribed by GAAP. In accordance with these requirements, we reviewed each of the business combinations completed by us before July 1, 2002 to determine whether there were intangibles that met the criteria of GAAP for recognition as identifiable intangibles other than goodwill. Based on our review, we did not identify any intangible assets acquired prior to January 1, 2002.

Under GAAP, goodwill is no longer amortized but is tested annually for impairment of value on a reporting unit basis. Management's judgement is required to identify reporting units with similar economic characteristics and to select an appropriate valuation model. In the P&C insurance brokerage industry and the P&C insurance industry, it is common for companies to be acquired at a multiple of revenue or book value, adjusted for net assets other than intangibles. A range of values used to evaluate the multiple is developed using discounted cash flow valuation techniques. Accordingly, we assess the carrying value of our net assets on this basis. Any impairment identified through this assessment is charged to income as a result of a reduction in the carrying value of the goodwill. Likewise intangible assets are subject to impairment test on an annual basis by reference to the underlying fair valuation of the intangible item.

Income Taxes

We use the liability method whereby income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of financial statement assets and liabilities compared with their respective tax bases. Accordingly, a future tax asset or liability is determined for each temporary difference based on the income tax rates that are expected to be in effect when the underlying items of revenue and expenses are expected to be realized.

Future income taxes accumulated as a result of temporary differences are included in the consolidated balance sheet. In addition, the consolidated statement of income contains items that are non-taxable or non-deductible for income tax purposes, which cause the income tax provision to differ from what it would be if based on statutory rates.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

The Company adopted effective January 1, 2004 on a prospective basis the recommendations of The Canadian Institute of Chartered Accountants (“CICA”) Emerging Issues Committee relating to derivatives (EIC-128). This change did not have any significant effect on our financial statements.

Management's Responsibility for Financial Reporting

Management is responsible for the preparation and presentation of the consolidated financial statements of ING Canada Inc. and its subsidiaries, collectively known as "the Company". This responsibility includes selecting appropriate accounting policies and making estimates and informed judgments based on the anticipated impact of current transactions, events and trends, consistent with Canadian generally accepted accounting principles.

In meeting its responsibility for the reliability of consolidated financial statements, the Company maintains and relies on a comprehensive system of internal control comprising organizational procedural controls and internal accounting controls. The Company's system of internal control includes the communication of policies and of the Company's Code of Conduct, comprehensive business planning, proper segregation of duties, delegation of authority for transactions and personal accountability, selection and training of personnel, safeguarding of assets and maintenance of records. The Company's internal auditors review and evaluate the system of internal control.

The Company's Board of Directors, acting through the Audit and Risk Review Committee, which is composed entirely of directors, who are neither officers nor employees of the Company, oversees management's responsibility for the design and operation of effective financial reporting and internal control systems, the preparation and presentation of financial information and the management of risk areas.

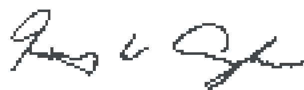
The Audit and Risk Review Committee conducts such review and inquiry of management and the internal and external auditors as it deems necessary to establish that the Company employs an appropriate system of internal control, adheres to legislative and regulatory requirements and applies the Company's Code of Conduct. The internal and external auditors, as well as the Actuary, have full and unrestricted access to the Audit and Risk Review Committee, with and without the presence of management.

Pursuant to the Insurance Companies Act of Canada or to Quebec's Part IA of the Companies Act ("*the Acts*"), the Actuary, who is a member of management, is appointed by the Board of Directors. The Actuary is responsible for discharging the various actuarial responsibilities required by the Acts and conducts a valuation of policy liabilities, in accordance with Canadian generally accepted actuarial standards, reporting his results to management and the Audit and Risk Review Committee.

The Office of the Superintendent of Financial Institutions Canada for the federally regulated property and casualty ("P&C") subsidiaries and L'Autorité des Marchés Financiers for the Quebec regulated P&C subsidiary make such examinations and inquiries into the affairs of the P&C subsidiaries as deemed necessary.

The Company's external auditors, Ernst & Young LLP, Chartered Accountants, are appointed by the shareholders to conduct an independent audit of the consolidated financial statements of the Company and meet separately with both management and the Audit and Risk Review Committee to discuss the results of their audit, financial reporting and related matters. The auditors' report to shareholders appears on page 45.

Claude Dussault
President and Chief Executive Officer



Michael W. Cunningham
Senior Vice-President and Chief Financial Officer

Auditors' Report

TO: THE SHAREHOLDERS OF ING CANADA INC.

We have audited the consolidated balance sheets of ING Canada Inc. (the "Company") as at December 31, 2004 and 2003 and the consolidated statements of income, changes in shareholders' equity and cash flows 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 audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
February 15, 2005

ERNST & YOUNG LLP
Chartered Accountants

Consolidated Balance Sheets

As at December 31

(in thousands of dollars)	2004	2003
Assets		
Cash and cash equivalents (Note 3)	$ 357,213	$ 104,659
Investments (Note 4)	6,010,405	3,861,546
Accrued investment income	43,266	24,672
Premium and other receivables	1,642,362	1,447,590
Reinsurers' share of unpaid claims and adjustment expenses (Notes 6 and 7)	687,201	696,123
Reinsurers' share of unearned premiums (Notes 6 and 7)	78,199	206,649
Deferred acquisition costs	389,688	324,860
Income taxes receivable	2,591	–
Other assets (Note 11)	127,543	111,435
Long-term investments (Note 14)	48,108	48,517
Future income taxes (Note 9)	148,488	36,372
Goodwill (Note 10)	91,116	44,362
Intangible assets (Note 10)	36,944	–
	$ 9,663,124	$ 6,906,785
Liabilities		
Payables and other liabilities	$ 669,604	$ 442,195
Due to affiliated companies (Note 8)	3,025	19,054
Income taxes payable	100,913	65,335
Unpaid claims and adjustment expenses (Note 6)	4,222,961	2,941,978
Unearned premiums (Note 6)	2,340,997	1,914,342
Unearned reinsurance commissions	9,785	51,727
Debt outstanding (Note 15)	256,230	483,082
	$ 7,603,515	$ 5,917,713
Shareholders' Equity		
Share capital (Note 16)	$ 1,052,290	$ 605,905
Contributed surplus	83,336	83,336
Retained earnings	923,983	299,831
	$ 2,059,609	$ 989,072
	$ 9,663,124	$ 6,906,785

See accompanying notes

On behalf of the Board

Claude Dussault
Director

Michael Mackenzie
Director

Consolidated Statements of Income

For the Years ended December 31

(in thousands of dollars except for per share amounts)	**2004**	2003
Direct premiums written	$ **3,575,900**	$ 3,443,765
Net premiums written	**3,608,990**	2,966,609
Revenue		
Net premiums earned	**3,364,563**	2,760,897
Investment income (Note 14)	**267,000**	213,973
Realized investment and other gains	**132,418**	32,134
Commission and advisory fees	**16,905**	8,355
	$ **3,780,886**	$ 3,015,359
Expenses		
Claims and loss adjustment expenses	**1,905,545**	1,880,825
Commissions	**614,379**	510,174
Premium taxes	**116,794**	103,261
General expenses	**276,681**	281,584
	$ **2,913,399**	$ 2,775,844
Interest on debt outstanding	**11,715**	12,550
Income Before Income Taxes	**855,772**	226,965
Income Taxes (Note 9)		
Current	**270,469**	74,129
Future	**(38,849)**	2,349
	$ **231,620**	$ 76,478
Net Income	$ **624,152**	$ 150,487
Earnings per share (Note 17)		
Basic	$ **6.51**	$ 1.61
Diluted	**6.49**	1.61

See accompanying notes

Consolidated Statements of Changes in Shareholders' Equity

For the Years ended December 31

(in thousands of dollars)	2004	2003
Common shares		
Balance, beginning of year	$ 605,905	$ 605,905
Capital issued (Note 16)	906,880	–
Reduction of capital (Note 16)	(428,684)	–
Share issuance costs, net of income taxes	(31,811)	–
Balance, end of year	1,052,290	605,905
Contributed surplus		
Balance, beginning and end of year	83,336	83,336
Retained earnings		
Balance, beginning of year	299,831	149,344
Net income	624,152	150,487
Balance, end of year	$ 923,983	$ 299,831
Total Shareholders' Equity	$ 2,059,609	$ 989,072

See accompanying notes

Consolidated Statements of Cash Flows

For the Years ended December 31

(in thousands of dollars)	2004	2003
Operating Activities		
Net income	$ **624,152**	$ 150,487
Adjustments to determine cash provided by operating activities:		
Amortization of property and equipment	**12,685**	14,332
Amortization of intangible assets	**305**	–
Amortization of premiums and discounts on fixed income securities	**19,224**	19,318
Net income from long-term investments	**(8,098)**	(3,528)
Realized investment and other gains	**(132,418)**	(32,134)
Deferred acquisition costs, net	**(64,571)**	(32,093)
Future income taxes, net	**(38,135)**	(4,330)
Unpaid claims and adjustment expenses, net	**573,537**	234,644
Unearned premiums, net	**244,427**	205,711
Changes in other operating assets and liabilities	**155,756**	19,598
Cash provided by operating activities	$ **1,386,864**	$ 572,005
Investing Activities		
Proceeds from sale of investments	**10,743,137**	7,270,313
Purchase of investments	**(11,721,330)**	(7,819,206)
Purchase of property and equipment, net	**(14,215)**	(8,024)
Proceeds from sale of long-term investments and assets held for resale, net	**6,615**	40,833
Net cash used in the acquisition of Allianz (Note 18)	**(359,312)**	–
Cash used in investing activities	$ **(1,345,105)**	$ (516,084)
Financing Activities		
Dividends received	**7,795**	4,085
Debt repayment	**(226,852)**	(19,400)
Proceeds from capital issuance	**906,880**	–
Share issuance costs	**(48,344)**	–
Reduction of capital	**(428,684)**	–
Cash provided by (used in) financing activities	$ **210,795**	$ (15,315)
Net Increase in Cash and Cash Equivalents	$ **252,554**	$ 40,606
Cash and Cash Equivalents, Beginning of Year	**104,659**	64,053
Cash and Cash Equivalents, End of Year	$ **357,213**	$ 104,659
Supplemental Cash Flow Information:		
Income taxes paid (recovered)	$ **243,781**	$ (15,916)
Interest paid on debt outstanding	**13,433**	11,769

See accompanying notes

Notes to Consolidated Financial Statements

(All amounts in thousands of dollars except for per share amounts)

1. STATUS OF THE COMPANY

ING Canada Inc. (the “Company”) was incorporated under the *Canada Business Corporations Act*. The Company has investments in wholly-owned subsidiaries which operate principally in the Canadian property and casualty insurance market. The Company’s significant subsidiaries are ING Insurance Company of Canada, The Nordic Insurance Company of Canada, ING Novex Insurance Company of Canada, Belair Insurance Company Inc. and Equisure Financial Network Inc., as well as those subsidiaries acquired in 2004 being Allianz of Canada, Inc. (“Allianz”) and its principal subsidiaries, Allianz Insurance Company of Canada, Trafalgar Insurance Company of Canada and Canada Brokerlink Inc. (note 18).

The Company is the resulting corporation from the amalgamation on December 10, 2004 of ING Canada Holdings Inc. and its former subsidiary ING Canada Inc. The amalgamation is presented on a continuity of interest basis, as if the historical financial positions and operating results of the amalgamating companies had always been amalgamated. Immediately prior to the amalgamation, the share capital of ING Canada Holdings Inc. was reduced and all of the previously issued and outstanding preferred shares were redeemed in exchange for promissory notes in the aggregate principal amount of $687,766.

The Company completed an initial public offering on December 15, 2004, pursuant to the filing of a prospectus dated December 9, 2004. As a result of the offering, 34,880,000 common shares were issued at $26.00 per share for proceeds of $858,536, net of underwriters’ fees and other expenses. Pursuant to the underwriters’ agreement for the prospectus, an over-allotment option was granted that was exercised subsequent to December 31, 2004 for which 5,232,000 additional shares were issued and net proceeds were received of $129,230 (note 23).

Subsequent to the closing of the offering, ING Groep N.V. (“ING Groep”) both as a shareholder of common shares and the Special Share (note 16) and a party to the Co-Operation Agreement has significant influence over the ongoing business and operation of the Company. The Co-Operation Agreement provides, among other things, that for so long as ING Groep holds not less than one-third of the Company’s outstanding common shares, the Company may not carry out certain corporate acts, including entering into business combinations with unaffiliated third parties or making acquisitions or dispositions above certain monetary thresholds and change the dividend policy without the prior written approval of ING Groep.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). The preparation of financial statements in accordance with Canadian GAAP requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, the reported

amounts of revenue and expenses for the year, as well as the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. These estimates are subject to uncertainty. Significant estimates include the determination of impairment (notes 4 and 10), policy liabilities (note 6), income taxes (note 9), employee future benefits (note 13), the allocation of the purchase price (note 18) and contingencies (note 19). Changes in estimates are recorded in the accounting period in which they are determined.

Further, the accounting policies used to prepare the financial statements of the Company's regulated insurance subsidiaries must also comply with the accounting requirements of their respective regulators. The significant accounting policies used in preparing these consolidated financial statements, including those specified by the insurance regulators, are in all material respects, in accordance with Canadian GAAP and are summarized below. These policies have been consistently applied.

a) **Basis of consolidation**

The Company consolidates the financial statements of all subsidiary companies and eliminates on consolidation all significant inter-company balances and transactions. The equity method is used to account for investments over which the Company exerts significant influence. Gains and losses on sales of these investments are included in income when recognized, while expected losses on "other-than-temporary" impairments are recognized immediately.

b) **Cash and cash equivalents**

Cash and cash equivalents include highly liquid investments which have a term to maturity of three months or less at the consolidated balance sheet dates. They are carried at amortized cost, which approximates fair value.

c) **Investments and investment income**

Fixed income securities are recorded at amortized cost, providing for the amortization of premiums and discounts to the consolidated statements of income on an effective yield basis. Shares and trust units are recorded at cost. Loans are presented net of an allowance for loan losses.

The book value of an investment is written down and the write-down is reflected in the consolidated statements of income when there is evidence of an "other-than-temporary" decline in the value of an investment.

Interest income is recognized as earned and dividends are recognized on the ex-dividend date. Gains and losses on disposition are recorded in the consolidated statements of income when investments are sold and are calculated based on average cost.

d) **Foreign currency translation**

Assets, liabilities, revenues and expenses arising from a foreign currency transaction are translated into Canadian dollars using the exchange rate prevailing at the date of the transaction. Monetary items denominated in a foreign currency are adjusted to reflect the exchange rate at December 31 and the foreign currency adjustments are reflected in the consolidated statements of income. Realized gains and losses on foreign currency transactions are recognized in the consolidated statements of income at the transaction date.

e) **Financial instruments**

The Company uses derivative financial instruments solely for risk management purposes. Derivatives used are forward contracts and swap agreements. All derivative financial instruments are recognized in the consolidated balance sheets and are measured at fair value, with changes in the fair value reflected in the consolidated statements of income.

The preferred shares which were fully redeemed in 2004 (note 15) were classified as debt outstanding due to a contractual obligation of the issuer either to deliver cash or another financial asset to the holder or to exchange another financial instrument with the holder under conditions that were potentially unfavourable to the issuer. Any dividends paid on these shares would have been charged to the consolidated statements of income.

f) **Revenue recognition**

Premiums written or assumed are deferred as unearned premiums and recognized as revenue on a pro rata basis over the terms of the underlying policies, usually twelve months and no longer than twenty-four months. Commission income and advisory fees are recorded on an accrued basis.

g) **Policy liabilities**

Policy liabilities consist of unearned premiums and the provision for unpaid claims and adjustment expenses. Unearned premiums are calculated as the unexpired portion of the premiums written on a pro rata basis. The provision for unpaid claims and adjustment expenses is first determined on a case-by-case basis as claims are reported and then reassessed, as additional information becomes known. It incorporates an additional provision to account for the future development of these claims including claims incurred but not reported. The provision for unpaid claims and adjustment expenses is discounted to take into account the time value of money. It also includes a provision for adverse deviation, as required by Canadian accepted actuarial practice.

The Actuary, using appropriate actuarial techniques, evaluates the adequacy of policy liabilities.

h) **Deferred acquisition costs**

Deferred acquisition costs comprise commissions, premium taxes and expenses directly related to the acquisition of premiums. They are deferred to the extent that they are recoverable from unearned premiums, after considering the related anticipated claims, expenses and investment income in respect to these premiums. They are amortized on the same basis as the premiums are recognized in the consolidated statements of income.

Commissions paid to brokers and dealers on the sale of mutual fund securities are deferred and amortized on a straight-line basis over six years starting on the date when the sale transaction is recorded.

i) **Reinsurance**

The Company presents third party reinsurance balances on the consolidated balance sheets on a gross basis to indicate the extent of credit risk related to third party reinsurance and its obligations to policyholders and on a net basis in the consolidated statements of income. The estimates for the reinsurers' share of unpaid claims and adjustment expenses are presented as an asset and are determined on a basis consistent with the related unpaid claims and adjustment expenses.

j) **Property and equipment**

Property and equipment are carried at cost less accumulated amortization. Amortization rates are established to depreciate the cost of the assets over their estimated useful lives. Amortization methods and rates are shown below.

	Method	**Rate or term**
Buildings	Declining balance	3% – 8%
Computer equipment	Straight-line	30 – 36 months
Furniture and equipment	Declining balance	20%
Leasehold improvements	Straight-line	Terms of related leases

k) **Employee future benefits**

For defined benefit pension and other retirement plans, the accrued benefit obligations, net of the fair values of plan assets and unamortized items, are accrued. The unamortized items are the past service cost, the transitional asset/obligation, the transitional valuation allowance and the net actuarial gains or losses. To match costs and services, these items are amortized on a straight-line basis over the expected average remaining service lifetime ("EARSL") of active members expected to receive benefits under the plans. Changes in the valuation allowance are not deferred.

For each plan, the Company has adopted the following policies:

(i) The actuarial determination of the accrued obligations for pensions and other retirement benefits uses the projected benefit method based on services provided by employees and management's best estimate assumptions.

(ii) For the purpose of calculating the expected return on plan assets, plan assets are valued at fair value.

(iii) Only gains or losses in excess of 10% of the greater of the accrued benefit obligations or the fair value of plan assets are amortized over EARSL.

(iv) Past service costs arising from plan amendments are amortized on a straight-line basis over EARSL.

(v) The Company amortizes the transitional asset/obligation arising from the adoption on January 1, 2000, of The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3461 using the prospective application method on a straight-line basis over EARSL as of January 1, 2000.

(vi) When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

l) **Income taxes**

The Company provides for income taxes using the liability method of tax allocation. Under this method, the provision for income taxes is calculated based on income tax laws and rates substantively enacted as at the consolidated balance sheet dates. The income tax provision is comprised of two components: current income taxes and future income taxes. Current income taxes are amounts expected to be payable or recoverable as a result of operations in the current year. Future income taxes arise from changes during the year in cumulative temporary differences between the accounting book values of assets and liabilities and their respective tax bases. A future income tax asset is recognized to the extent that future realization of the tax benefit is more likely than not.

The consolidated statements of income contain items that are non-taxable or non-deductible for income tax purposes, which cause the income tax provision to differ from what it would have been if based on statutory rates.

m) **Goodwill and intangible assets**

For acquisitions completed subsequent to July 1, 2001, the excess of the purchase price over the fair value of the underlying net tangible assets is initially allocated to intangible assets, as appropriate, and the residual to goodwill. An intangible asset is recognized apart from goodwill when it results from contractual or other legal rights or when it is capable of being separated or divided from the acquired enterprise and sold, transferred, licensed, rented, or exchanged. Finite life intangible assets are amortized to the consolidated statements of income over their useful lives whereas infinite life intangible assets and goodwill are not subject to amortization. Goodwill is tested annually for impairment of value on a reporting unit basis. Judgment is required to identify reporting units with similar economic characteristics and to select a valuation model. Accordingly, the Company assesses the book value of its net assets on this basis. Impairment, if any, identified through this assessment is charged to the consolidated statements of income as a result of a reduction in the book value of the goodwill.

n) Earnings per share

Earnings per share are computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if the holders of securities or contracts entitling them to obtain common shares in exchange for their securities or contracts exercised their right to obtain common shares.

o) Significant accounting changes

In 2004, the Company adopted the provisions of the CICA's amended Handbook Section 3461 – "Employee Future Benefits" which requires additional disclosures for employment future benefit plans as disclosed in note 13.

The Company also adopted the provisions contained in the CICA Emerging Issues Committee EIC 128 – "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments", which requires that freestanding derivative financial instruments, including those that are not designated or effective as part of a hedging relationship, be recognized in the consolidated balance sheets as other assets or other liabilities and measured at fair value, with changes in fair value recognized in the consolidated statements of income.

The impact of these changes was not significant to the consolidated financial statements.

3. CASH AND CASH EQUIVALENTS

For the purpose of meeting short-term cash commitments, the Company maintains short-term investments in highly liquid money market securities maturing in three months or less, referred to as cash equivalents. At December 31, 2004, the Company had $437,031 in cash equivalents (2003 – $213,232). Cash equivalents are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Consequently, their fair value is assumed to approximate their book value. Cash and cash equivalents in the consolidated balance sheets are presented net of bank overdrafts.

4. INVESTMENTS

Table 4.1

	2004			
	Book value	Fair value	Gross unrealized gains	Gross unrealized losses
Fixed income securities [a]	$ 3,685,099	$ 3,776,547	$ 93,535	$ 2,087
Investment grade				
Government and government guaranteed	1,791,377	1,840,483		
Corporate	1,187,346	1,220,931		
Asset-backed	523,381	531,900		
Below investment grade	182,995	183,233		
Mortgage loans	78,699	83,287	4,588	
Preferred shares	1,069,629	1,136,337	69,740	3,032
Investment grade	885,311	936,359		
Below investment grade	184,318	199,978		
Common shares [b]	997,707	1,077,195	90,622	11,134
Other investments [c]	179,271	179,271		
	$ 6,010,405	$ 6,252,637	$ 258,485	$ 16,253

Table 4.2

	2003			
	Book value	Fair value	Gross unrealized gains	Gross unrealized losses
Fixed income securities [a]	$ 1,660,408	$ 1,690,317	$ 31,829	$ 1,920
Investment grade				
Government and government guaranteed	960,680	974,841		
Corporate	430,081	441,635		
Asset-backed	217,125	221,071		
Below investment grade	52,522	52,770		
Mortgage loans	113,052	117,949	4,897	
Preferred shares	1,096,835	1,152,060	59,423	4,198
Investment grade	911,051	948,443		
Below investment grade	185,784	203,617		
Common shares [b]	782,369	846,137	75,177	11,409
Other investments [c]	208,882	208,882		
	$ 3,861,546	$ 4,015,345	$ 171,326	$ 17,527

(a) Fixed income securities include private placements and fixed income units of ING Funds. The book value of the private placements was $38,764 at December 31, 2004 (2003 – $45,240). The book value of the fixed income units was $16,318 at December 31, 2004 (2003 – $16,318).

(b) Common shares include equity units of ING Funds. The book value of these units was $138,730 at December 31, 2004 (2003 – $140,776).

(c) Other investments include loans and strategic investments.

The Company has an investment policy and applies the prudent person approach to investment management. Management monitors compliance with that policy. The majority of the investment portfolio is invested in well-established, active and liquid markets. Fair values for most investments are determined by reference to quoted market prices. In cases where an active market does not exist, fair values are estimated by reference to recent transactions or current market prices for similar investments.

To assess impairments, management reviews available current information for investments with fair values below their book values to ascertain whether the book values are expected to be recovered. For investments in common and preferred shares, management evaluates whether their expectations have not changed such that the fair value of these securities is not adversely affected other than on a temporary basis. For fixed income securities, management assesses the expected future cash flows and, where necessary, the net realizable amounts of assets provided as collateral. As a result of the foregoing assessments, impairments for the year in the aggregate amount of $6,950 (2003 – $29,673) were recorded.

The Company has invested in some common shares and income trust units pursuant to a market neutral strategy so as to maximize value added from active management. This strategy consists of having both long and short equity positions. These positions are not held for short-term investing purposes, but may nevertheless be changed in anticipation of, or in response to, better market opportunities. Long and short positions are accounted for at cost. Short positions are presented in the consolidated balance sheets as other liabilities.

Table 4.3 summarizes the Company's long and short positions under the market neutral strategy.

Table 4.3	**2004**		2003	
	Book value	**Fair value**	Book value	Fair value
Long positions	**$ 41,266**	**$ 42,082**	$ 24,414	$ 25,983
Short positions	**(38,035)**	**(41,587)**	(25,693)	(26,117)

The Company provides collateral as security for funds received pursuant to the sale of short securities. At December 31, 2004, the book value of the collateral was $39,641 (2003 – $25,057).

a) **Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the Company to incur a financial loss. Credit risk mostly arises from investments in fixed income securities and preferred shares.

The Company's investment policy requires that, at the time of the investment, fixed income securities have a minimum credit rating of BBB and preferred shares have a minimum credit rating of P3. Management monitors subsequent credit rating changes on a regular basis. Investments in any entity or group of related entities are limited to 5% of the Company's assets.

Tables 4.1 and 4.2 on page 56 reflect the Company's fixed income securities and preferred shares classified by type of issuer and investment grade.

b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash flow commitments associated with financial instruments. To manage its cash flow requirements, the Company maintains a portion of its invested assets in liquid securities.

Tables 4.4 and 4.5 have been prepared on the basis of the scheduled maturities of the underlying instruments.

Investment maturities

Table 4.4

	2004				
	One year or less	**One year to five years**	**Over five years**	**No specific maturity**	**Total**
Fixed income securities	**$ 116,376**	**$ 1,419,879**	**$ 2,132,526**	**$ 16,318**	**$ 3,685,099**
Mortgage loans	**–**	**73,738**	**4,961**	**–**	**78,699**
Preferred shares	**1,165**	**128,928**	**320,604**	**618,932**	**1,069,629**
Common shares	**–**	**–**	**–**	**997,707**	**997,707**
Other investments	**16,576**	**92,223**	**53,171**	**17,301**	**179,271**
	$ 134,117	**$ 1,714,768**	**$ 2,511,262**	**$ 1,650,258**	**$ 6,010,405**

Table 4.5

	2003				
	One year or less	One year to five years	Over five years	No specific maturity	Total
Fixed income securities	$ 5,583	$ 754,940	$ 883,567	$ 16,318	$ 1,660,408
Mortgage loans	29,059	29,001	54,992	–	113,052
Preferred shares	43,728	187,257	293,042	572,808	1,096,835
Common shares	–	–	–	782,369	782,369
Other investments	36,705	86,697	68,924	16,556	208,882
	$ 115,075	$ 1,057,895	$ 1,300,525	$ 1,388,051	$ 3,861,546

c) Interest rate risk

Interest rate risk is the risk that a movement in interest rates will have an adverse effect on the financial condition of the Company.

The weighted interest rate based on book values as at December 31, 2004 was 5.22% (2003 – 5.50%) for fixed income securities, 7.05% (2003 – 7.09%) for mortgage loans and 5.17% (2003 – 5.33%) for preferred shares with a maturity date.

d) Securities lending

The Company participates in a securities lending program managed by the Company's custodian, a major Canadian financial institution, whereby the Company lends securities it owns to other financial institutions to allow them to meet delivery commitments. Government securities with an estimated fair value of 105% of the fair value of the securities loaned are received as collateral from the Canadian financial institution.

5. DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments to manage financial risks arising from fluctuations in foreign exchange rates, markets and cash flows. The Company's policy is to not utilize derivative financial instruments for trading or speculative purposes.

a) Foreign exchange rate risk

Foreign exchange rate risk is the risk that the value of a foreign denominated financial instrument will fluctuate as a result of changes in foreign exchange rates. The Company mitigates foreign exchange rate risk by buying or selling successive monthly foreign exchange forward contracts. Foreign exchange forward contracts are commitments to buy or sell foreign currencies for delivery at a specified date in the future at a fixed rate. Forwards are transacted in over-the-counter markets. The notional amount of these forwards approximates the fair value of the foreign denominated investments covered by these forwards.

b) Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. The Company mitigates cash flow risk by entering into foreign exchange swaps, whereby foreign denominated principal and fixed interest receipts are sold in exchange for Canadian dollars. These swaps are transacted in over-the-counter markets.

The notional amount of these swaps approximates the nominal value of the foreign denominated investments covered by these swaps.

The Company had also entered into an interest-rate swap with a financial institution, whereby, in exchange of fixed interest cash outflows, it received variable interest cash inflows. The variable interest cash inflows received were subsequently paid as interest on the Company's loan payable to an affiliate, which carried a variable interest rate. During 2004, the variable interest loan to the affiliate was repaid and the interest rate swap with the financial institution cancelled.

c) **Fair value**

The fair value of exchange-traded derivative financial instruments is based on quoted market rates. The fair value of over-the-counter derivative financial instruments is an estimate and is determined using valuation models that incorporate prevailing foreign exchange rates, interest rates, market rates and prices of underlying instruments with similar maturities and characteristics.

The fair value reflects the estimated amount that the Company would receive or might have to pay to terminate the contracts as at December 31.

d) **Credit risk**

The credit risk for derivative financial instruments is limited to their positive fair value, which is substantially lower than their notional amount. The Company mitigates credit risk by diversifying exposure to any single counterparty. The counterparties are federally regulated financial institutions.

Table 5.1 summarizes the derivatives used by the Company, their notional amount and their fair value. Positive fair values are recorded as other assets (note 11) and negative fair values as other liabilities.

Table 5.1	**2004**			2003		
	Notional amount	**Positive fair value**	**Negative fair value**	Notional amount	Positive fair value	Negative fair value
Foreign exchange risk						
Forwards sold	**$ 39,680**	**$ –**	**$ 39**	$ 47,889	$ –	$ 236
Forwards bought	**540**	**–**	**–**	2,759	14	–
Cash flow risk						
Interest rate swap	**–**	**–**	**–**	75,000	–	1,096
Foreign exchange swaps	**14,972**	**2,406**	**–**	18,985	1,206	–
	$ 55,192	**$ 2,406**	**$ 39**	$ 144,633	$ 1,220	$ 1,332

Table 5.2 provides a summary of the remaining terms to maturity of the derivatives.

Table 5.2	**2004**			2003		
	Term to maturity (notional amount)			Term to maturity (notional amount)		
	One year or less	**One year to five years**	**Over five years**	One year or less	One year to five years	Over five years
Forwards	**$ 40,220**	**$ –**	**$ –**	$ 50,648	$ –	$ –
Interest rate swap	**–**	**–**	**–**	75,000	–	–
Foreign exchange swaps	**–**	**6,468**	**8,504**	972	4,320	13,693
	$ 40,220	**$ 6,468**	**$ 8,504**	$ 126,620	$ 4,320	$ 13,693

6. POLICY LIABILITIES

Provisions for policy liabilities are established to reflect the estimate of the full amount of all liabilities associated with the insurance policies at the consolidated balance sheet dates, including claims incurred but not reported. The ultimate cost of these liabilities will vary from the best estimate made for a variety of reasons, including additional information with respect to the facts and circumstances of the claims incurred.

Provision for unpaid claims and adjustment expenses

Table 6.1	**2004**			2003		
	Direct	**Assumed**	**Ceded**	Direct	Assumed	Ceded
Auto: liability	**$ 1,850,330**	**$ –**	**$ 77,039**	$ 1,376,562	–	$ 290,154
Auto: personal accident	**770,297**	**–**	**32,153**	622,975	–	173,461
Auto: other	**101,582**	**–**	**161**	103,611	–	75,385
Property	**610,309**	**1,827**	**314,450**	295,225	–	75,050
Liability	**818,824**	**763**	**199,007**	535,691	–	80,606
Other	**58,692**	**10,337**	**64,391**	7,914	–	1,467
	$ 4,210,034	**$ 12,927**	**$ 687,201**	$ 2,941,978	–	$ 696,123

The provision for unpaid claims and adjustment expenses is first determined on a case-by-case basis as claims are reported and then reassessed, as additional information becomes known. It incorporates an additional provision to account for the future development of these claims including claims incurred but not reported. In estimating the provision for unpaid claims and adjustment expenses, standard actuarial techniques are used. These techniques are based on historical loss development factors and payment patterns. They require the use of assumptions such as loss and payment development factors, future rates of claim frequency, future rates of claim severity, inflation, reinsurance recoveries, expenses, changes in the legal environment, changes in the regulatory environment and other matters, taking into consideration the circumstances of the Company and the nature of the insurance policies.

The provision for unpaid claims and adjustment expenses is reduced by $359,948 (2003 – $229,841) on a net basis to take into account the time value of money using a rate of 4.80% (2003 – 5.35%) on underlying claim settlement patterns. It also includes a provision for adverse deviation, as required by Canadian accepted actuarial practice. The aggregate impact of the provision for adverse deviation is to increase the provision for unpaid claims and adjustment expenses on a net basis by $410,634 (2003 – $235,768). The Company considers that the fair value of unpaid claims and adjustment expenses approximates their book value.

Provision for unearned premiums

Table 6.2	2004			2003		
	Direct	**Assumed**	**Ceded**	Direct	Assumed	Ceded
Auto: liability	**$ 620,367**	**$ 50**	**$ 3,108**	$ 510,620	–	$ 63,974
Auto: personal accident	**198,619**	**–**	**665**	181,837	–	35,526
Auto: other	**547,998**	**–**	**908**	461,776	–	44,396
Property	**764,420**	**3,259**	**40,099**	608,261	–	49,727
Liability	**167,253**	**2,394**	**14,838**	128,331	–	5,147
Other	**36,386**	**251**	**18,581**	23,517	–	7,879
	$ 2,335,043	**$ 5,954**	**$ 78,199**	$ 1,914,342	–	$ 206,649

The provision for unearned premiums is calculated on a pro rata basis, from the unexpired portion of the premiums written, and is validated through standard actuarial techniques to ensure that it is sufficient to cover the estimated future costs of servicing these policies and related claims. In estimating these future costs, the Company uses discounting techniques and adds a provision for adverse deviation to the discounted amount. There was no premium deficiency at the consolidated balance sheet dates. The Company considers that the fair value of unearned premiums approximates their book value.

Interest rate sensitivity

Since the time value of money is considered when determining the provision for unpaid claims and adjustment expenses, an increase or decrease in the discount rate would result in a decrease or increase in unpaid claims and adjustment expenses, respectively. Consequently, a 1% change in the discount rate would have an impact of $70,506 (2003 – $34,196) on the fair value of unpaid claims and adjustment expenses.

Structured settlements

The Company enters into annuity agreements with various Canadian life insurance companies to provide for fixed and recurring payments to claimants. Under such arrangements, the Company's liability to its claimants is substantially transferred, although the Company remains exposed to credit risk to the extent to which any of the life insurers fail to fulfil their obligations. This risk is managed by acquiring annuities from highly rated Canadian life insurance companies. At December 31, 2004, none of the life insurers from which the Company had purchased annuities was in default and no provision for credit risk was required. A measure of the credit risk exposure is the original purchase price of $248,206 (2003 – $151,072) of the annuities.

7. REINSURANCE

In the ordinary course of business, the Company reinsures certain risks with other reinsurers to limit its maximum loss in the event of catastrophes or other major losses. Net retention on a single property or liability is generally $2,500 (2003 – $2,000) and $2,500 (2003 – $2,500), respectively; in a number of cases, like special classes of business or types of risks, the retention would be lower through specific treaties or the use of facultative reinsurance. For multi-risk events or catastrophes, retention is $5,000 (2003 – $2,500) with a limit of $1,200,000 (2003 – $1,300,000). In 2003 and 2004, the Company retained 10% of the exposure from $12,500 to $600,000.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to the Company.

The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurers' insolvencies. The Company requires a minimum credit rating for reinsurers of A- at inception of the treaty. Rating agencies used are A.M. Best and Standard & Poor's. The Company also requires that most of its treaties have a security review clause allowing the Company to replace a reinsurer during the treaty period should the reinsurer's credit rating fall below the level acceptable to the Company. Management concluded that the Company was not exposed to significant loss from reinsurers for potentially uncollectible reinsurance as at the consolidated balance sheet dates.

Furthermore, the Company is the assigned beneficiary of trust accounts holding cash deposits, bonds and letters of credit totalling $458,700 (2003 – $923,857) in guarantee from unlicensed reinsurers. These amounts include $56,214 (2003 – $922,623) from an affiliated reinsurer. Trust accounts are held in support of policy liabilities of $349,513 (2003 – $761,264) and could be used should these reinsurers be unable to meet their obligations.

Table 7.1 presents the impact of reinsurance on the consolidated statements of income.

Table 7.1	**2004**		2003	
	Ceded		Ceded	
	To affiliates	**Total**	To affiliates	Total
Premiums earned	**$ (56,038)**	**$ (155,013)**	$ (402,787)	$ (495,839)
Claims and loss adjustment expenses	**31,655**	**97,285**	298,630	311,099
Commissions	**–**	**13,839**	54,783	68,946
Premium taxes	**–**	**–**	11,360	11,360
General expenses	–	–	23,426	23,426
Loss before income taxes	**$ (24,383)**	**$ (43,889)**	$ (14,588)	$ (81,008)

8. RELATED PARTY TRANSACTIONS

The Company enters into transactions with the controlling shareholder, ING Groep N.V. ("ING Groep"), and its affiliated companies. These transactions consist of management and advisory expenses rendered by ING Groep and its affiliated companies, reinsurance by an affiliated company (note 7), financing by ING Groep and advisory fees earned from affiliated asset management funds. These transactions are carried out in the normal course of operations. Accordingly, they are measured at the exchange amount, which approximates fair value. These transactions are settled with counterparties on a regular basis.

In 2004, the Company incurred $17,632 (2003 – $14,626) in expenses and $9,509 (2003 – $10,383) in interest. The Company also received advisory fees of $8,347 (2003 – $2,970).

Effective January 1, 2004, the Company commuted a quota share agreement with an affiliated company. Consequently, the Company reassumed $665,000 in previously ceded policy liabilities and received an equivalent amount of investment assets.

At December 31, 2004, significant inter-company balances were $65 (2003 – $15,638) for amounts payable to an affiliated reinsurer, $2,654 (2003 – $3,110) for interest payable, and $306 (2003 – $306) for other accounts payable.

In 2000, a subsidiary of the Company launched a series of mutual funds under the ING brand name for distribution in Canada. Subsidiaries of the Company have invested in these mutual funds (note 4). The fair value of these investments is $167,989 (2003 – $164,785) representing 45.9% (2003 – 54.8%) of the funds' total fair value.

9. INCOME TAXES

(a) Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory rates to consolidated income before income taxes for the following reasons:

Table 9.1	**2004**	2003
Income tax expense calculated at statutory rates	**34.3%**	35.2%
Increase (decrease) resulting from:		
Non-taxable dividends	**(3.8)%**	(14.2)%
Tax on large corporations	**–**	1.8%
Non-deductible accounting write-down	**–**	1.3%
Losses for which a tax asset is not recognized	**–**	3.9%
Non-taxable portion of capital gains	**(1.1)%**	–
Non-deductible expenses	**0.7%**	4.8%
Valuation allowance	**–**	2.9%
Other (net)	**(3.0)%**	(2.0)%
Income tax expense	**27.1%**	33.7%

(b) The most significant components of the future income tax balances are as follows:

Table 9.2		**2004**		2003
Future income tax assets				
Difference between accounting loss reserves and tax loss reserves	$	**61,532**	$	44,414
Difference between the market value and book value of investments		**44,834**		39,574
Losses available for carryforward		**24,465**		959
Premises and equipment		**13,449**		4,799
Deferred expenses for tax purposes		**63,609**		30,571
Total future income tax assets	$	**207,889**	$	120,317
Future income tax liabilities				
Deferred income for tax purposes	$	**–**	$	42,400
Deferred gains and losses on specified debt obligations		**45,753**		23,222
Pension and retirement benefits		**9,740**		13,926
Other (net)		**3,908**		4,397
Total future income tax liabilities	$	**59,401**	$	83,945
Net future income tax assets	$	**148,488**	$	36,372

The Company had recorded cumulative impairments in its investments in ING mutual funds for which an income tax asset of $4,443 (2003 – $5,000) had not been recognized as at December 31, 2004.

The Company had non-capital losses of $97,385 (2003 – $51,701) of which $29,796 (2003 – $48,961) had not been recognized as a future income tax asset as at December 31, 2004. These losses may be used to reduce future taxable income and expire as follows:

Table 9.3

Year		**Amount**
2005	$	3,156
2006		3,617
2007		6,865
2008		4,242
2009		3,190
Thereafter		8,726
	$	29,796

The Company had allowable capital losses of approximately $27,943 (2003 – $24,500), which had not been recognized as a future income tax asset as at December 31, 2004. These losses may be used to reduce future taxable capital gains.

10. GOODWILL AND INTANGIBLE ASSETS

The Company performed its annual impairment testing and identified no impairment in either 2004 or 2003. Impairments are non-cash in nature and they do not affect the Company's liquidity or ability to discharge its liabilities.

The intangible assets represent customer lists and the rights to offer renewals. They are amortized on a straight-line basis over ten years.

11. OTHER ASSETS

Table 11.1 summarizes the major components of other assets.

Table 11.1		**2004**		2003
Property and equipment, net (note 12)	$	**52,297**	$	42,428
Prepaid pension asset (note 13)		**69,316**		59,857
Prepaid commissions		**1,779**		4,794
Assets held for resale		**–**		2,116
Other assets		**4,151**		2,240
	$	**127,543**	$	111,435

12. PROPERTY AND EQUIPMENT

Table 12.1 shows the major categories of the Company's property and equipment.

Table 12.1	**2004**			2003		
	Cost	**Accumulated amortization**	**Book value**	Cost	Accumulated amortization	Book value
Land	**$ 5,113**	**$ –**	**$ 5,113**	$ 3,355	$ –	$ 3,355
Buildings	**23,979**	**(13,038)**	**10,941**	21,991	(12,101)	9,890
Computer equipment	**58,417**	**(45,166)**	**13,251**	47,540	(38,144)	9,396
Furniture and equipment	**43,849**	**(28,236)**	**15,613**	44,438	(30,316)	14,122
Leasehold improvements	**15,541**	**(8,162)**	**7,379**	13,187	(7,522)	5,665
	$146,899	**$ (94,602)**	**$ 52,297**	$ 130,511	$ (88,083)	$ 42,428

13. EMPLOYEE FUTURE BENEFITS

The Company has several defined benefit pension plans, as well as defined contribution pension plans resulting from the acquisition of Allianz. For the defined benefit plans, the measurement date is December 31 and the latest actuarial valuations were performed as of December 31, 2002. The next actuarial valuations will be performed as of December 31, 2005.

The Company partly finances several other retirement plans offering life insurance and health benefits which are closed to new participants, with the exception of those acquired from Allianz.

Table 13.1 presents the changes in the benefit obligations and fair values of plan assets and reconciles the plans' funded status with the net prepaid asset (accrued liability).

Table 13.1	2004	2003	2004	2003
	Pension plans		Other plans	
Change in benefit obligation				
Benefit obligation at beginning of year	$ **(316,104)**	$ (280,506)	$ **(10,069)**	$ (7,438)
Current service cost	**(15,373)**	(12,667)	**–**	–
Interest cost on benefit obligation	**(19,777)**	(19,010)	**(587)**	(459)
Employee contributions	**(3,831)**	(3,556)	**–**	–
Actuarial losses	**(30)**	(11,476)	**–**	(2,713)
Benefits paid	**13,576**	11,111	**675**	541
Acquisition of Allianz	**(10,984)**	–	**(12,427)**	–
Benefit obligation at end of year	$ **(352,523)**	$ (316,104)	$ **(22,408)**	$ (10,069)
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	$ **391,132**	$ 329,657	$ **–**	$ –
Actual return on plan assets	**43,266**	64,106	**–**	–
Employer contributions	**4,859**	4,924	**675**	541
Employee contributions	**3,831**	3,556	**–**	–
Benefits paid	**(13,576)**	(11,111)	**(675)**	(541)
Acquisition of Allianz	**10,984**	–	**–**	–
Fair value of plan assets at end of year	$ **440,496**	$ 391,132	$ **–**	$ –
Funded status				
Excess (deficit) of fair value of plan assets over benefit obligation at end of year	$ **87,973**	$ 75,028	$ **(22,408)**	$ (10,069)
Unrecognized transitional (asset) obligation	**(73,682)**	(84,207)	**1,117**	1,225
Unrecognized past service cost	**454**	510	**–**	–
Unrecognized net actuarial losses	**40,234**	57,445	**2,666**	3,517
Valuation allowance	**(1,958)**	(2,237)	**–**	–
Net prepaid asset (accrued liability) at end of year	$ **53,021**	$ 46,539	$ **(18,625)**	$ (5,327)
Recognized as				
Other assets (note 11)	$ **69,316**	$ 59,857	$ **–**	$ –
Other liabilities	**(16,295)**	(13,318)	**(18,625)**	(5,327)
Net prepaid asset (accrued liability) at end of year	$ **53,021**	$ 46,539	$ **(18,625)**	$ (5,327)

Included in the benefit obligation and fair value of plan assets are the following amounts in respect of plans that are not fully funded.

	2004	2003	2004	2003
Benefit obligation	$ **(112,842)**	$ (77,651)	$ **(22,408)**	$ (10,069)
Fair value of assets	**90,948**	57,105	**–**	–
Deficit	$ **(21,894)**	$ (20,546)	$ **(22,408)**	$ (10,069)

The employer contributions and cost recognized for the defined contribution plan were $278 in the month of December 2004.

At December 31, 2004, 52% of the defined benefit pension plans' assets were held in equity securities, 45% in fixed income securities and 3% in other investments.

Table 13.2 provides details of the components of the accrued benefit expense (income) before adjustments to recognize the long-term nature of employee future benefit costs, as well as a reconciliation with the accrued benefit expense (income).

Table 13.2	**2004**	2003	**2004**	2003
	Pension plans		Other plans	
Accrued benefit (income) expense				
Current service cost	$ **15,373**	$ 12,667	$ **–**	$ –
Interest cost on benefit obligation	**19,777**	19,010	**587**	459
Actual return on plan assets	**(43,266)**	(64,106)	**–**	–
Net actuarial losses (gains)	**30**	11,476	**(675)**	2,713
Accrued benefit (income) expense before adjustments to recognize the long-term nature of employee future benefit costs	$ **(8,086)**	$ (20,953)	$ **(88)**	$ 3,172
Excess of actual return over expected return on plan assets for the year	$ **15,072**	$ 38,658	$ **–**	$ –
Amortization of past service cost	**56**	56	**–**	–
Amortization of transitional (asset) obligation	**(10,525)**	(10,525)	**108**	108
Amortization of net actuarial losses	**2,169**	4,658	**176**	7
Net actuarial (losses) gains arising during the year	**(30)**	(11,476)	**675**	(2,713)
Amortization of valuation allowance	**(279)**	(279)	**–**	–
Change in valuation allowance	**–**	(4,706)	**–**	–
Accrued benefit (income) expense	$ **(1,623)**	$ (4,567)	$ **871**	$ 574

Table 13.3 summarizes the key weighted average assumptions used for the measurement of the benefit obligations and benefit expense (income).

Table 13.3	**2004**	2003	**2004**	2003
	Defined benefit plans		Other plans	
To determine benefit obligations at end of year				
Discount rate	**6.0%**	6.0%	**6.0%**	6.0%
Rate of increase in future compensation	**4.0%**	4.0%	**4.0%**	n/a
To determine benefit expense (income) for the year				
Discount rate	**6.0%**	6.5%	**6.0%**	6.5%
Rate of increase in future compensation	**4.0%**	4.0%	**n/a**	n/a
Expected long-term rate of return on plan assets	**7.25%**	7.75%	**n/a**	n/a

The weighted average of the assumed health care cost trend rate for 2005 used to measure the expected cost of benefits covered by the plans is 11.3%, declining by 1% per year for each of the next four years.

Table 13.4 shows the impact of a 1% increase and decrease in the health care cost trend rate on the other plans' benefit obligation and on the service and interest cost.

Table 13.4	2004	
	1% increase	**1% decrease**
(Decrease) increase in benefit obligation	$ (1,501)	$ 1,426
(Decrease) increase in the service and interest cost	(130)	131

14. LONG-TERM INVESTMENTS

The Company has investments in companies in which it has significant influence. These investments are referred to as long-term investments and are recorded using the equity method. Under this method, the Company records its share in the net income of long-term investments, computed by the consolidation method. Net income from long-term investments is included in investment income.

Table 14.1			**2004**		
	Opening balance	**Additional investment**	**Income**	**Dividends**	**Closing balance**
P&C Insurance Brokerages	$ 41,431	$ 6,374	$ 8,098	$ (7,795)	$ 48,108
Other	7,086	(7,086)	–	–	–
	$ 48,517	$ (712)	$ 8,098	$ (7,795)	$ 48,108

Table 14.2			2003		
	Opening balance	Additional investment	Income (loss)	Dividends	Closing balance
P&C Insurance Brokerages	$ 77,987	$ (39,391)	$ 6,920	$ (4,085)	$ 41,431
Other	10,478	–	(3,392)	–	7,086
	$ 88,465	$ (39,391)	$ 3,528	$ (4,085)	$ 48,517

In May 2004, the Company disposed of its investment in IPC Financial Network Inc. for proceeds of approximately $26,700 and an after-tax gain of $19,900.

15. DEBT OUTSTANDING

Table 15.1 summarizes the Company's loans and lines of credit.

Table 15.1

Issuer	Maturity	Rate		2004		2003
ING Verzekeringen, N.V.	August 27, 2006	6.27%	$	**127,000**	$	127,000
ING Verzekeringen, N.V. [(a)]		LIBOR + 8 Bp.		**–**		75,000
ING Insurance International, N.V. [(b)]				**–**		259,082
ING Insurance International, N.V. [(c)]				**129,230**		–
Royal Bank of Canada [(d)]				**–**		22,000
Royal Bank of Canada [(e)]				**–**		–
			$	**256,230**	$	483,082

(a) Renewable for successive periods of three months for an undetermined period of time, but at least until January 23, 2006.

(b) The 25,908,200 preferred shares were redeemed at their book value prior to the amalgamation in consideration of a non-interest bearing promissory note.

(c) Non-interest bearing promissory note, representing the outstanding balance arising from the redemption of preferred shares. The note was fully repaid in January 2005, following the exercise of the over-allotment option granted to the underwriters as a result of the initial public offering (note 23).

(d) Revolving credit facility renewable for successive periods of three months until January 23, 2006. The revolving facility was repaid in full and cancelled during 2004.

(e) Uncommitted revolving credit facility in the amount of $50,000, which may be drawn as primary loans at the prime rate or as bankers' acceptances at the bankers' acceptance rate.

16. SHARE CAPITAL

Prior to the amalgamation (note 1), the Company reduced the capital on its existing 141,569 common shares by an amount of $428,684.

As a result of the amalgamation, the Company's share capital consisted of the following:

(i) An unlimited amount of shares of one class designated as common shares of which 93,620,000 were issued as a result of the conversion of the 141,569 common shares;

(ii) An unlimited number of a second class designated as Class "A" shares, and;

(iii) One share of a third class designated as the Special Share which is convertible into one common share. The beneficial owner of the Special Share is entitled to nominate and elect a certain number of directors to the board and appoint the chief exective officer, as determined by the number of common shares that the holder of the Special Share beneficially owns.

Upon the closing of the initial public offering, 34,880,000 common shares were issued at a price of $26.00 per share.

Table 16.1 summarizes the Company's share capital.

Table 16.1

	2004			2003		
Classes of shares	**Authorized (shares)**	**Issued and outstanding (shares)**	**Amount**	Authorized (shares)	Issued and outstanding (shares)	Amount
Common	**Unlimited**	**128,500,000**	**$ 1,052,290**	Unlimited	141,569	$ 605,905
Class A	**Unlimited**	**–**	**–**	n/a	n/a	n/a
Special	**One**	**1**	**–**	n/a	n/a	n/a
			$ 1,052,290			$ 605,905

17. EARNINGS PER SHARE

Table 17.1		2004		2003[1]
Basic earnings per share				
Net income available to common shareholders	$	**624,152**	$	150,487
Average number of common shares (in thousands)		**95,818**		93,620
Basic earnings per share	$	**6.51**	$	1.61
Diluted earnings per share				
Net income available to common shareholders	$	**624,152**	$	150,487
Net interest income on proceeds of over-allotment option		**114**		–
Adjusted net income available to common shareholders	$	**624,266**	$	150,487
Average number of common shares (in thousands)		**95,818**		93,620
Common shares granted in over-allotment[2] (in thousands)		**330**		–
Average number of diluted common shares		**96,148**		93,620
Diluted earnings per share	$	**6.49**	$	1.61

(1) For comparative purposes, the number of common shares in 2003 reflects the reorganization of capital which occurred in 2004 (Note 16).

(2) Note 23.

18. ACQUISITIONS

Acquisition of Allianz

The Company entered into a share and loan purchase agreement dated October 7, 2004 with Allianz AG and Allianz of America Inc. to acquire most of Allianz' operations in Canada as described below. The transaction was effective November 30, 2004 and was completed December 8, 2004. The results of Allianz for the month of December 2004 have been included in the Company's consolidated statements of income for the year ended December 31, 2004. Pursuant to the purchase agreement:

(i) The Company acquired all of the issued and outstanding shares of Allianz.

(ii) The Company purchased a certain debt of Allianz of $91,000.

(iii) The Company completed the transaction for cash consideration of $279,000 for the shares of Allianz. The purchase price was funded by existing investments and a bridge loan from a Canadian chartered bank. The bridge loan was repaid in full following the initial public offering.

(iv) A series of restructuring transactions (the "Restructuring") requiring Allianz to transfer a portion of its business (the "AGR Business") to the Canadian branch of Allianz Global Risks US Insurance Company ("AGR") will be completed in 2005. Until regulatory approval is obtained for the Restructuring the AGR Business is subject to a quota share agreement with Allianz Global Risks Rückversicherungs AG. Consequently, the AGR Business has no net impact on the consolidated statements of income of the Company.

Table 18.1 presents the allocation of the purchase price.

Table 18.1

Purchase equation		
Purchase price	$	370,000
Less: Cash consideration for loan purchased		(91,062)
Cash consideration for shares		278,938
Add: Transaction costs		4,500
Net balance sheet assets acquired		283,438
Less: Fair value of net tangible assets acquired		(199,435)
Excess	$	84,003
Fair value of the net tangible assets		
Book value of Allianz	$	328,226
Less: Fair value adjustments		(127,013)
Less: Integration costs[(1)]		(34,518)
Add: Future income taxes on the foregoing		32,740
Fair value of net tangible assets acquired	$	199,435
Allocation of excess		
Intangible assets – customer lists and rights to offer renewal	$	37,249
Goodwill		46,754
Net intangible assets and goodwill	$	84,003

(1) Integration costs represent amounts to be incurred related to the integration of the operations of Allianz over the next twelve to eighteen months and consist of provisions for involuntary employee terminations, redundant lease space, discontinuance of information systems and regulatory policyholder notification requirements.

Table 18.2 presents selected items of Allianz' balance sheet at fair value at the date of acquisition.

Table 18.2

Cash and cash equivalents	$	15,188
Investments		1,061,513
Reinsurers' share of unpaid claims and adjustment expenses		505,188
Reinsurers' share of unearned premiums		58,476
Deferred acquisition costs		47,606
Goodwill and intangible assets		84,003
Unpaid claims and adjustment expenses		(1,221,556)
Unearned premiums		(369,154)
Total assets		2,115,432
Total liabilities		(1,831,994)
Shareholder's equity		(283,438)

Other

Under the terms of an agreement with a major Canadian property and casualty insurance company, certain guarantees were provided with respect to policy liabilities acquired by the Company as of December 31, 2001. Amounts recoverable pursuant to this agreement, including interest, are due in 2004 and 2005 with a final settlement on April 30, 2007. Management estimates that the amount recoverable is in the magnitude of $100,000.

19. CONTINGENCIES

In the normal course of operations, various claims and legal proceedings are instituted against the Company. Legal proceedings are often subject to numerous uncertainties and it is not possible to predict the outcome of individual cases. In management's opinion, the Company has made adequate provision for, or has adequate insurance to cover all claims and legal proceedings. Consequently, any settlements reached should not have a material adverse effect on the Company's consolidated future operating results and financial position.

20. COMMITMENTS AND GUARANTEES

Table 20.1 presents future minimum payments under long-term leases for premises and equipment.

Table 20.1

Year	Amount
2005	$ 44,979
2006	39,290
2007	39,495
2008	31,353
2009	26,597
Thereafter	97,973
	$ 279,687

In the normal course of operations, the Company provides indemnification agreements to directors and officers, to the extent permitted by law, against certain claims made against them as a result of their services to the Company. The Company has insurance coverage for these agreements.

21. SEGMENTED INFORMATION

The Company's core business activity is property and casualty insurance. Property and casualty operations include two manufacturing segments and the investment segment. The manufacturing segments are personal lines and commercial lines. Classes in the personal lines segment include automobile and property. Classes in the commercial lines segment encompass commercial property and liability, automobile, surety, marine, as well as niche products that are targeted towards limited markets requiring specialized underwriting and claim settlement. The effect of reinsurance is reflected in the revenue and results of the manufacturing segments. The investment activities consist of managing the investment portfolio for the Company as a whole. Investment income is shown net of investment expenses. Non property and casualty segments include the corporate and other activities, as well as realized investment gains. The corporate and other activities include miscellaneous sources of income such as commissions and advisory fees and related expenses, the Company's share of the net income from long-term investments and expenses related to non-recurring items, such as acquisitions, whose effects are not allocated to any other segment.

Table 21.1	**2004**	2003
Revenue		
Property and casualty insurance		
Personal insurance	**$ 2,343,448**	$ 1,828,682
Commercial insurance	**1,021,115**	932,215
Investment	**256,692**	208,786
Total property and casualty insurance	**3,621,255**	2,969,683
Corporate and other	**27,213**	13,542
Realized investment and other gains	**132,418**	32,134
Total revenue	**$ 3,780,886**	$ 3,015,359
Income (loss) before income taxes		
Property and casualty insurance		
Personal insurance	**339,228**	(35,556)
Commercial insurance	**130,802**	87,241
Investment	**246,964**	200,500
Total property and casualty insurance	**716,994**	252,185
Corporate and other	**6,360**	(57,354)
Realized investment and other gains	**132,418**	32,134
Total income before income taxes	**855,772**	226,965
Assets		
Property and casualty insurance	**9,230,609**	6,731,359
Corporate and other	**432,515**	175,426
Total assets	**$ 9,663,124**	$ 6,906,785
Goodwill acquired during the year		
Property and casualty insurance	**$ 32,525**	–
Corporate and other	**14,229**	–
Total goodwill acquired during the year	**$ 46,754**	–

22. FAIR VALUE DISCLOSURE

The fair value of financial assets and liabilities, other than investments and short securities (note 4), derivative financial instruments (note 5) and policy liabilities (note 6) approximates their book value due to their short-term nature.

23. SUBSEQUENT EVENT

Pursuant to the initial public offering, the underwriters were granted an over-allotment option to purchase up to an additional 5,232,000 common shares at the offering price of $26.00 per share within thirty days from the date of the closing of the offering. The option was exercised in full in January 2005 for net proceeds of $129,230.

24. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

Board of Directors

ING Canada is fortunate to draw upon the talents and guidance of a distinguished and knowledgeable Board of Directors. Members of our Board bring a great depth and breadth of experience that combines insight into ING Group with external perspective from their independent roles.

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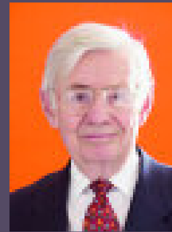

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Corporate Director

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(3) Human Resources Committee (4) Investment Committee

Executive Officers

ING Canada's senior management team is a highly experienced group of insurance professionals. Each member of our team brings an average of 13 years' experience with ING and more than 15 years' experience in the insurance and financial services industry. A relatively flat organizational structure that emphasizes local knowledge of our regional markets keeps management close to the customer and responsive to the market's continually evolving requirements.

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and Chief Actuary

Françoise Guénette
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Corporate and Legal
Services, and Secretary

Corporate Information

ING Canada Inc.
A holding company

ING Insurance Company of Canada
Provides personal and commercial insurance products across Canada

Allianz Insurance Company of Canada
Provides personal automobile and property insurance across Canada (policies formerly underwritten by Allianz will be rewritten on renewal by ING Insurance Company of Canada)

Trafalgar Insurance Company of Canada
Specializes in serving the personal insurance needs of those aged 50 plus in Alberta, Ontario and the Atlantic provinces

ING Investment Management, Inc.
An investment management company

Equisure Financial Network Inc.
A holding company having a minority interest in a network of independent brokers

181 University Avenue, 7th Floor
Toronto, Ontario M5H 3M7
Tel: 416-941-5151

ING Novex Insurance Company of Canada
Provides personal auto and property protection to employee groups, associations and affinity groups

600-5775 Yonge Street
Toronto, Ontario M2M 4J1
Tel: 416-228-2618

The Nordic Insurance Company of Canada
Services clients of the Ontario and Alberta Facility Associations

75 Eglinton Avenue East
Toronto, Ontario M4P 3A4
Tel: 416-440-1000

Belair Insurance Company Inc.
A direct distributor of personal auto, home and travel insurance

300-7101 Jean Talon Street East
Anjou, Quebec H1M 3T6
Tel: 514-270-1700

Wellington Warranty Company Inc.
Provides warranty products across Canada

2450 Girouard Street West
St-Hyacinthe, Quebec J2S 3B3
Tel: 450-773-9701

ING Wealth Management Inc.
A mutual fund dealer

1300-200 University Avenue
Toronto, Ontario M5H 4B8
Tel: 416-217-5900

Canada Brokerlink Inc.
A wholly-owned insurance broker serving Ontario and Alberta

1300-321 6th Avenue SW
Calgary, Alberta T2P 4W7
Tel: 403-269-7961

Shareholder Information

Financial Strength Rating (Insurance subsidiaries)

A.M Best A+ (Superior, 2nd highest of 15)

Toronto Stock Exchange Listing

Ticker Symbol: IIC.LV

2004 Annual Meeting

The Annual Meeting will be held on:
Date: April 19, 2005
Time: 10:00 a.m. EST
Place: Hartland Molson Theatre
Hockey Hall of Fame
BCE Place
30 Yonge Street
Toronto, Ontario
M5E 1X8

Institutional investors, security analysts and others who may want additional financial information can visit the Investor Relations section of the ingcanada.com web site, call 1-866-778-0774 or contact:

Brian Lynch
Investor Relations Consultant
(416) 941-5181
brian.lynch@ingcanada.com

For media inquiries, please contact:

Gilles Gratton
Director, Corporate Communications
(416) 217-7206
gilles.gratton@ingcanada.com

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100 University Avenue, 9th Floor
Toronto, Ontario M5J 2Y1
1-800-564-6253

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ING CANADA INC.
181 University Avenue, 7th Floor
Toronto Ontario M5H 3M7

www.ingcanada.com