

## **ING Canada Inc.**

### **MANAGEMENT DISCUSSION AND ANALYSIS**

*August 11, 2005*

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated interim financial statements (unaudited) and accompanying notes included at the end of this report, as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations", and the financial statements included in the Company's 2004 Annual Report to Shareholders. Additional information relating to ING Canada, including the Annual Information Form, may be found on SEDAR at [www.sedar.com](http://www.sedar.com). It contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below or in our 2004 Annual Report. 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 coming twenty-four months.

Given the importance of automobile insurance, provincial regulatory changes affecting this line of business are expected to continue to impact the performance of the P&C insurance industry. Based on the experience to date, the various reforms continue to be effective at containing and stabilizing claims costs. As a result, product availability and affordability are being restored. Sustainability of the cost containment measures as well as potential rate reductions will be the key drivers in the short term.

The low levels of automobile claims frequency observed in 2004 appear to be holding in 2005. We believe it will either return to levels higher than current ones or competitive pressure will lead to further premium reductions. Industry returns in automobile insurance are likely to exceed historical levels for the coming twelve 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. While we are seeing price softening, current price levels in general yield returns above historical levels. We remain disciplined in pricing and underwriting while committing to superior service to our brokers and commercial customers.

Furthermore, increases in non-residential construction costs will put additional pressure on underwriting margins in commercial insurance. We are therefore working with our brokers to ensure that insured values for our commercial customers are adequate.

Overall, we expect the industry's top-line growth rates for the next twenty-four months to be below historical levels. We also expect that the underwriting results of the industry will not remain at the favourable levels experienced in 2004 and thus far in 2005.

Management believes that ING Canada, with its scale advantage, underwriting discipline and pricing sophistication, is well positioned to capitalize on the above conditions and continue to outperform the industry's return on equity for the foreseeable future. Furthermore, our distinct product and service proposition delivered through a multi-channel distribution network will be a key driver in fuelling organic growth.

## **Overall Performance**

### *Net income*

Net income for the three months ended June 30, 2005 ("Q2 05") was \$223.6 million up \$51.3 million, or 29.7%, from \$172.3 million for the three months ended June 30, 2004 ("Q2 04"). Net income was \$382.1 million for the six months ended June 30, 2005 ("YTD 05") up \$94.7 million, or 33.0%, from the six months ended June 30, 2004 ("YTD 04").

These results, which include the addition of Allianz (acquired in December 2004), reflect the continued strength of our underwriting activities, solid growth in investment income and a significant increase in realized gains on the sale of investments. Despite the losses incurred following the June 2005 storms in Southern Alberta, our underwriting results remained strong thanks to the continued profitable growth of our personal automobile portfolio which benefited from low claims frequency, positive reserve development and improved results from industry pools in which we participate.

### *Shareholders' equity*

Shareholders' equity increased by \$471.2 million, or 22.9%, to \$2,530.8 million at Q2 05 compared to December 31, 2004. In addition to the net income of \$382.1 million, the exercise of the over-allotment option in January 2005 from our initial public offering in December generated an increase in shareholders' equity of \$131.6 million. The proceeds of the over-allotment option were used to repay debt of \$129.2 million. Cumulative dividends of \$43.5 million were also paid, reducing shareholders' equity.

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 interim financial statements for the three and six months ended June 30, 2005.

(in millions of dollars)	Three months ended		Six months ended	
	June 30		June 30	
	2005	2004	2005	2004
Direct premiums written	\$1,171.4	\$1,043.4	\$1,993.4	\$1,771.2
Total revenue	1,112.3	900.9	2,211.2	1,856.5
Underwriting income	179.8	174.5	294.7	218.0
Net income	223.6	172.3	382.1	287.4
Earnings per share (in dollars) Basic and Diluted	1.67	1.84	2.86	3.07

(in millions of dollars)	As at June 30	As at December 31
	2005	2004
Investments	\$6,257.6	\$6,010.4
Total assets	9,937.2	9,663.1
Debt outstanding	127.0	256.2
Total shareholders' equity	2,530.8	2,059.6

The following table shows selected financial ratios and Return on Equity (“ROE”) data.

	Three months ended		Six months ended	
	June 30		June 30	
	2005	2004	2005	2004
Claims ratio	51.6%	49.7%	55.1%	58.0%
Expense ratio	<u>29.6%</u>	<u>29.2%</u>	<u>29.6%</u>	<u>28.8%</u>
Combined ratio	<b>81.2%</b>	<b>78.9%</b>	<b>84.7%</b>	<b>86.8%</b>
			Twelve months ended	
			June 30	
			2005	2004
ROE <sup>(1)</sup>			37.8%	34.3%
ROE of our P& C insurance subsidiaries <sup>(2)</sup>			37.2%	29.3%

(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 of our P&C insurance subsidiaries for the twelve months ended on the date indicated divided by the average shareholders' equity of 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 those results of the above-mentioned subsidiaries, as well as those of the subsidiaries of Allianz : Allianz Insurance Company of Canada and Trafalgar Insurance Company of Canada.

## *Revenue*

Our revenue increased by \$211.4 million, or 23.5%, to \$1,112.3 million in Q2 05 compared to \$900.9 million in Q2 04. For YTD 05, revenue was up by \$354.7 million, or 19.1%, to \$2,211.2 million compared to \$1,856.5 million for YTD 04. The Allianz acquisition generated the primary revenue growth in net premiums earned while investment income in our P&C operations together with commission and advisory fees in our affiliated brokerage operations represented strong contributors to revenue. In addition, both realized and unrealized investment gains in the equity and fixed income portfolios were up significantly in the quarter due to the strong performance of those markets.

Direct premiums written were up \$128.0 million, or 12.3%, in Q2 05 compared to Q2 04 and \$222.1 million, or 12.5%, in YTD 05 compared to YTD 04 primarily due to the acquisition of Allianz.

The number of insured risks, defined as the number of vehicles in automobile, the number of premises in personal property and the number of policies in commercial other (which includes all commercial lines of business excluding commercial auto) grew 15.7% in Q2 05 (YTD 05 : 17.4%) including 3.9% for Q2 05 (YTD 05 : 4.2%) from organic growth. Lower premiums from industry pools and rate reductions in personal automobile served to dampen growth however in direct premiums written.

Net premiums earned increased by \$127.8 million, or 15.4%, to \$955.8 million in Q2 05 compared to \$828.0 million in Q2 04. For YTD 05, the increase in net earned premiums was \$278.0 million, or 16.9%, to \$1,923.8 million compared to \$1,645.8 million a year ago. Allianz accounted for \$126.3 million, or a 15.3%, increase in Q2 05 (YTD 05 : \$260.8 million or a 15.8% increase). Lower earned premiums from industry pools (Q2 05 : 2.6%; YTD 05 : 2.2%), as well as premium rate reductions in personal automobile reduced growth.

Investment income was \$95.4 million in Q2 05 up \$32.8 million, or 52.4%, from the \$62.6 million reported in Q2 04. For YTD 05, investment income increased by \$47.1 million, or 37.7%, to \$171.9 million compared to \$124.8 million a year ago. The increase in invested assets as a result of the Allianz acquisition, the retained profits of the last twelve months plus interest income received as part of an interim settlement in Q2 05 related to the 2001 Portfolio Purchase were the main contributing factors to higher investment income.

## *Underwriting income*

Underwriting income increased by \$5.3 million to \$179.8 million in Q2 05 relative to Q2 04. For YTD 05, underwriting income was \$294.7 million up \$76.7 million from the comparable period in 2004. The Allianz acquisition contributed \$33.5 million and \$43.3 million, respectively, to underwriting income for the three months and six months ended June 30, 2005. The adverse impact of the June 2005 catastrophe storms in Southern Alberta on underwriting income was \$43.0 million net of reinsurance and deteriorated the claims ratio by 4.0% and 2.0%, respectively, for the three months and six months ended June 30, 2005.

Our personal automobile portfolio continued to be the most significant contributor to underwriting income, accounting for \$145.9 million with a combined ratio of 69.8% and \$213.2 million with a combined ratio of 78.2%, respectively, of underwriting income for the quarter and the year to date. The performance of the automobile portfolio benefited from favourable reserve development resulting primarily from the sustained effectiveness of automobile reforms, continued low claims frequency and by an improvement in the underwriting results from the industry pools.

## Summary of Quarterly Results

(in millions of dollars, except for per share data)	2005				2004				2003	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Direct Premiums Written	\$1,171.4	\$821.9	\$883.0	\$921.6	\$1043.4	\$727.8	\$851.6	\$918.7	\$990.2	\$683.3
Total Revenues	1,112.3	1,098.8	1,004.7	919.7	900.9	955.6	808.0	777.6	735.3	694.5
Underwriting Income (loss)	179.8	114.9	118.4	133.7	174.5	43.4	(13.3)	44.4	44.6	(24.0)
Income (loss) before income taxes	323.6	228.6	229.7	217.1	238.6	170.4	47.8	95.4	85.6	(1.9)
Net Income	223.6	158.5	173.1	163.6	172.3	115.1	24.7	66.7	58.2	0.9
Combined ratio <sup>(1)</sup>	81.2	88.1	86.7	83.9	78.9	94.7	101.8	93.8	93.4	103.8
Seasonal indicator <sup>(2)</sup>	-	-	1.01	0.98	0.92	1.10	1.04	0.96	0.95	1.06
Earnings per share										
Basic	1.67	1.19	1.69	1.75	1.84	1.23	0.26	0.71	0.62	0.01
Diluted	1.67	1.19	1.67	1.75	1.84	1.23	0.26	0.71	0.62	0.01
Earnings per adjusted share <sup>(3)</sup>										
Basic Pro-Forma	1.67	1.19	1.35	1.27	1.34	0.90	0.19	0.52	0.45	0.01
Diluted Pro-Forma	1.67	1.19	1.29	1.22	1.29	0.86	0.18	0.50	0.44	0.01

(1) The combined ratio is the sum of the claims ratio and the expense ratio. Claims and expenses are 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.

(2) The seasonal indicator is the ratio of the quarterly to the yearly combined ratio.

(3) To facilitate comparison between historical and future performance, management calculates basic and diluted earnings per adjusted share on a pro-forma basis as if the 128.5 million common shares outstanding after our reorganization and completion of the initial public offering were outstanding at the beginning of each of the nine quarters, and as if the 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 nine quarters. 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. 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.

For the three and six months ended June 30, 2005, the combined ratios were 81.2% and 84.7%, respectively. The combined ratio ("CR") of Q2 05 of 81.2% reflects the observed seasonality in our P&C business. The first quarter 2005 CR was 88.1% and thus 6.9 percentage points higher than Q2 05. This difference is actually smaller than our 3 year average of 11.0% due in part to the catastrophe storms in Southern Alberta. The seasonal indicator pattern has historically shown that Q2 is the lowest loss quarter followed by Q3, Q4 and then Q1.

## SEGMENTED INFORMATION

We report our results through the three segments of our P&C insurance business : personal insurance, commercial insurance and the investment results of our P&C insurance subsidiaries, as well as through two other segments, namely corporate and other, and realized investment and other gains.

The following table presents selected information on our segments.

(in millions of dollars)	Three months ended		Six months ended	
	June 30		June 30	
	2005	2004	2005	2004
<b>Revenue</b>				
Net premiums earned				
Personal insurance	\$ 665.4	\$ 576.4	\$1,341.2	\$1,148.1
Commercial insurance	<u>290.4</u>	<u>251.6</u>	<u>582.6</u>	<u>497.7</u>
Total net premiums earned	955.8	828.0	1923.8	1,645.8
Investments	<u>90.9</u>	<u>60.4</u>	<u>164.7</u>	<u>120.7</u>
<b>Total P&amp;C insurance</b>	<b>\$1,046.7</b>	<b>\$ 888.4</b>	<b>\$2,088.5</b>	<b>\$1,766.5</b>
Corporate and other	18.9	6.5	33.2	11.9
Realized investment and other gains	<u>46.7</u>	<u>6.0</u>	<u>89.5</u>	<u>78.1</u>
<b>Total Revenue</b>	<b><u>\$1,112.3</u></b>	<b><u>\$ 900.9</u></b>	<b><u>\$2,211.2</u></b>	<b><u>\$1,856.5</u></b>
<b>Income before income taxes</b>				
Underwriting income				
Personal insurance	\$ 114.9	\$ 108.6	\$ 195.3	\$ 131.7
Commercial insurance	<u>64.9</u>	<u>65.9</u>	<u>99.4</u>	<u>86.3</u>
Total underwriting income	179.8	174.5	294.7	218.0
Investments	<u>85.2</u>	<u>58.0</u>	<u>153.4</u>	<u>116.0</u>
<b>Total P&amp;C insurance</b>	<b>\$ 265.0</b>	<b>\$ 232.5</b>	<b>\$ 448.1</b>	<b>\$ 334.0</b>
Corporate and other	11.9	0.0	14.7	(3.2)
Realized investment and other gains	<u>46.7</u>	<u>6.0</u>	<u>89.5</u>	<u>78.1</u>
<b>Total income before income taxes</b>	<b><u>\$ 323.6</u></b>	<b><u>\$ 238.5</u></b>	<b><u>\$ 552.3</u></b>	<b><u>\$ 408.9</u></b>

## Personal Insurance

The following table sets forth the direct premiums written and underwriting income of our personal insurance segment.

(in millions of dollars)	Three months ended		Six months ended	
	June 30		June 30	
	2005	2004	2005	2004
<b>Direct premiums written</b>				
Personal automobile	\$572.8	\$527.6	\$ 960.7	\$ 878.6
Personal property	<u>223.6</u>	<u>199.8</u>	<u>370.8</u>	<u>325.7</u>
<b>Total</b>	<b><u>\$796.4</u></b>	<b><u>\$727.4</u></b>	<b><u>\$1,331.5</u></b>	<b><u>\$1,204.3</u></b>
Net premiums earned	\$665.4	\$576.4	\$1,341.2	\$1,148.1
Expenses :				
Claims and loss adjustment expenses	366.6	313.8	772.9	714.0
Commissions	107.7	87.6	219.1	178.2
Premium taxes	23.0	20.4	46.1	39.2
General expenses	<u>53.2</u>	<u>46.0</u>	<u>107.8</u>	<u>85.0</u>
Total expenses	<u>550.5</u>	<u>467.8</u>	<u>1,145.9</u>	<u>1,016.4</u>
<b>Underwriting income</b>	<b><u>\$114.9</u></b>	<b><u>\$108.6</u></b>	<b><u>\$ 195.3</u></b>	<b><u>\$ 131.7</u></b>
<b>Ratios :</b>				
Claims ratio	55.1%	54.4%	57.6%	62.2%
Commissions ratio	16.2%	15.3%	16.4%	15.5%
Premium taxes ratio	3.4%	3.5%	3.4%	3.4%
General expense ratio	<u>8.0%</u>	<u>8.0%</u>	<u>8.0%</u>	<u>7.4%</u>
<b>Combined ratio</b>	<b><u>82.7%</u></b>	<b><u>81.2%</u></b>	<b><u>85.4%</u></b>	<b><u>88.5%</u></b>

Direct premiums written increased by \$69.0 million, or 9.5%, in Q2 05 compared to Q2 04 (YTD 05 : \$127.2 million or 10.6%) while the number of insured risks increased by 16.8% in Q2 05 (YTD 05 : 18.4%). Allianz accounted for a 12.5% increase in direct written premiums in Q2 05 (YTD 05 : 14.0%). Lower premiums year-over-year from industry automobile pools reduced premium growth by 5.3% in Q2 05 (YTD 05 : 5.4%) Personal automobile direct premiums written reflect an average rate reduction of approximately 7.0 % for Q2 05 (YTD 05 : 8.4 %).

Net premiums earned increased by \$89.0 million, or 15.4%, in Q2 05 compared to Q2 04 (YTD 05 : \$193.1 million or 16.8%). Allianz accounts for a 16.4% increase in Q2 05 (YTD 05 : 16.9%). Lower earned premiums year-over-year from industry automobile pools reduced premium growth by 3.8% in Q2 05 (YTD 05 : 3.2%) while premium rate reductions in personal automobile also reduced growth.

Underwriting income from personal insurance increased by \$6.3 million in Q2 05 compared to Q2 04 (YTD 05 : \$63.6 million). These results include the negative impact in the claims ratio related to the catastrophe storms in Southern Alberta during the month of June 2005 which reduced

underwriting income by \$33.7 million net of reinsurance and increased the claims ratio by 4.7% (YTD 05 : 2.3%).

The claims ratio for personal property increased by 28 percentage points in Q2 05 compared to Q2 04 (YTD 05 : 15.2 percentage points). The catastrophe storms had the biggest impact on personal property with an increase in the claims ratio of 14.7 percentage points for Q2 05 (YTD 05 : 7.3 percentage points). The majority of the remaining deterioration is driven by heavy rain across Canada resulting in a higher incidence of water damage claims adversely impacting both claims frequency and severity.

The personal automobile business continued to experience a significant improvement, with the claims ratio decreasing by 9.6 percentage points in Q2 05 compared to Q2 04 (YTD 05 : 11.9 percentage points). The impact of the catastrophe storms increased the claims ratio by 1.0 percentage point in Q2 05 (YTD 05 : 0.5 percentage point). The improvement was attributable to favourable reserve development, continued favourable claims frequency and improvement in underwriting income from the industry pools of \$13.2 million for Q2 05 (YTD 05 : \$16.2 million).

Our personal insurance expense ratio was 27.6% for Q2 05 compared to 26.8% in Q2 04 and 27.8% for YTD 05 compared to 26.3% for YTD 04. Commissions accounted for 0.8 percentage point increase for Q2 05 (YTD 05 : 0.9 percentage point increase). Regular commissions grew by approximately \$18.2 million, or 26.3%, in Q2 05 and \$36.4 million, or 26.5%, for YTD 05 which is slightly higher than the growth in direct earned premiums. Profit sharing commissions for brokers increased by \$8.3 million in Q2 05 and \$15.2 million for a total of \$44.0 million for YTD 05. Commissions from industry pools decreased by \$7.5 million in Q2 05 and \$12.2 million for YTD 05.

The general expense ratio remained constant at 8% for Q2 04 and Q2 05 but increased by 0.6 percentage point for the 2005 year to date compared to 2004. In absolute terms, general expenses increased by \$7.1 million, or 15.5%, in Q2 05 compared to Q2 04 (YTD 05 : by \$22.8 million, or 26.7%, compared to YTD 04) of which Allianz accounts for \$7.7 million of the increase in Q2 05 and \$18.3 million of the year-to-date increase. In addition, transition expenses related to the Allianz acquisition which were allocated to both claims and general expenses were \$4.3 million for YTD 05.

### **Commercial Insurance**

The following table sets forth the direct premiums written and underwriting income of our commercial insurance segment.

(in millions of dollars)	Three months ended		Six months ended	
	June 30		June 30	
	2005	2004	2005	2004
<b>Direct premiums written</b>				
Commercial automobile	\$101.6	\$ 88.3	\$172.2	\$151.2
Commercial other	<u>273.5</u>	<u>227.8</u>	<u>489.7</u>	<u>415.8</u>
<b>Total</b>	<b><u>\$375.1</u></b>	<b><u>\$316.0</u></b>	<b><u>\$661.9</u></b>	<b><u>\$567.0</u></b>

(in millions of dollars)	Three months ended		Six months ended	
	June 30		June 30	
	2005	2004	2005	2004
Net premiums earned	\$290.4	\$251.6	\$582.6	\$497.7
Expenses :				
Claims and loss adjustment expenses	127.1	97.9	287.6	241.4
Commissions	61.0	54.2	121.6	106.1
Premium taxes	10.7	9.1	21.4	18.1
General expenses	<u>26.7</u>	<u>24.5</u>	<u>52.6</u>	<u>45.8</u>
Total expenses	<u>225.5</u>	<u>185.7</u>	<u>483.2</u>	<u>411.4</u>
<b>Underwriting income</b>	<b><u>\$ 64.9</u></b>	<b><u>\$ 65.9</u></b>	<b><u>\$ 99.4</u></b>	<b><u>\$ 86.3</u></b>
<b>Ratios :</b>				
Claims ratio	43.8%	38.9%	49.4%	48.5%
Commissions ratio	21.0%	21.6%	20.8%	21.4%
Premium taxes ratio	3.7%	3.6%	3.7%	3.6%
General expense ratio	<u>9.2%</u>	<u>9.7%</u>	<u>9.0%</u>	<u>9.2%</u>
<b>Combined ratio</b>	<b><u>77.7%</u></b>	<b><u>73.8%</u></b>	<b><u>82.9%</u></b>	<b><u>82.7%</u></b>

Direct premiums written increased by \$59.0 million, or 18.7%, in Q2 05 compared to Q2 04 (YTD 05 : \$94.9 million or 16.7%). Allianz accounts for a 15.2% increase in Q2 05 (YTD 05 : a 16.1% increase). The number of insured risks increased by 7.4% in Q2 05 (YTD 05 : 10.4%).

Net premiums earned increased by \$38.8 million, or 15.4%, in Q2 05 compared to Q2 04 (YTD 05 : \$85.0 million or 17.1%). Allianz accounts for 12.6% of the increase in Q2 05 (YTD 05 : 13.5%).

Underwriting income decreased by \$1.0 million in Q2 05 compared to Q2 04, however, the year-to-date underwriting income has increased by \$13.1 million. The claims ratio for commercial insurance increased by 4.9 percentage points from 38.9% for Q2 04 to 43.8 % for Q2 05, however, the year-to-date increase is 0.9 percentage point. The catastrophe storms in Southern Alberta during the month of June 2005 increased the claims ratio by 2.3 percentage points for Q2 05 (YTD 05 : 1.2 percentage points). While claims frequency remained favourable and past rate increases have contributed favourably, increase in severity is driving the majority of the remaining deterioration for the quarter.

Our commercial insurance expense ratio was 33.9% for Q2 05 compared to 34.9% for Q2 04 due to decreases of a 0.5 percentage point in both the commission and the general expense ratio. Our year-to-date commercial insurance expense ratio was 33.5% compared to 34.2% in 2004 due to decreases of a 0.5 percentage point in the commission ratio and a 0.2 percentage point in the general expense ratio.

Commissions increased by \$6.9 million, or 12.8%, in Q2 05 compared to Q2 04. Regular commissions increased by \$8.4 million, or 17.6%, and reinsurance commissions increased by \$2.2 million. Year-to-date commissions increased by \$15.4 million, or 14.5%, compared to 2004. Regular commissions were higher by \$18.3 million, or 19.2%, profit-sharing commissions for

brokers increased by \$4.2 million to \$20.3 million for YTD 05 and reinsurance commissions increased by \$7.3 million.

The general expense ratio decreased by a 0.5 percentage point in Q2 05 compared to Q2 04, and the 2005 year-to-date ratio decreased by a 0.2 percentage point compared to 2004. In absolute terms, general expenses increased by \$2.2 million, or 8.9%, in the Q2 05 compared to Q2 04 (YTD 05 : by \$6.8 million, or 15.0%, compared to YTD 04). Allianz accounts for \$3.5 million of the increase in Q2 05 and \$7.2 million of the year-to-date increase. Transition expenses related to the Allianz acquisition which were allocated to both claims and general expenses were \$1.9 million for YTD 05.

## Investment income

The following table presents the results of our investment segment.

(in millions of dollars)	Three months ended		Six months ended	
	June 30		June 30	
	2005	2004	2005	2004
<b>Investment</b>				
Interest income	\$61.0	\$35.7	\$109.9	\$ 72.8
Dividend income	30.1	24.1	55.9	47.3
Other	<u>(0.2)</u>	<u>0.6</u>	<u>(1.1)</u>	<u>0.6</u>
<b>Investment revenue P&amp;C subsidiaries</b>	<b><u>\$90.9</u></b>	<b><u>\$60.4</u></b>	<b><u>\$164.7</u></b>	<b><u>\$120.7</u></b>
Investment expenses	(5.7)	(2.4)	(11.3)	(4.7)
<b>Investment income before income taxes – P&amp;C subsidiaries</b>	<b><u>\$85.2</u></b>	<b><u>\$58.0</u></b>	<b><u>\$153.4</u></b>	<b><u>\$116.0</u></b>

Investment income earned by the investment portfolios of our insurance companies increased by \$30.5 million, or 50.5%, for Q2 05 compared to Q2 04. Year-to-date income increased by \$44.0 million, or 36.4%, to \$164.7 million for YTD 05 from \$120.7 million in YTD 04. As part of an interim settlement in Q2 05 related to the 2001 Portfolio Purchase, interest income of \$14.5 million was received. The average pre-tax yields of our investment segment, excluding realized investment gains and losses and interest income related to the 2001 Portfolio Purchase noted above was 5.1% for Q2 05 compared to 5.2% for Q2 04 (YTD 05 : 5.0% compared to 5.2%).

Investment expenses were \$5.7 million for Q2 05 (YTD 05 : \$11.3 million) compared to Q2 04 \$2.4 million (YTD 04 : \$4.7 million). The increase in expenses was due to increased assets from the Allianz acquisition plus a change in asset management charges instituted effective January 1, 2005 to reflect market costs. These expenses were paid to our in-house investment operations and therefore the same amount is reported as expense in this segment and as negative expense in the "Corporate and Other segment" and thus eliminated in consolidation.

## Realized investment and other gains

The following table presents realized investment and other gains.

(in millions of dollars)	Three months ended		Six months ended	
	June 30		June 30	
	2005	2004	2005	2004
<b>Realized investment and other gains (losses)</b>				
Fixed income	\$25.3	\$(13.4)	\$36.2	\$42.0
Preferred shares	(0.5)	(4.5)	(0.3)	(2.6)
Common shares	21.9	4.0	52.7	34.8
Sale of subsidiaries and other	<u>0.0</u>	<u>19.9</u>	<u>0.9</u>	<u>3.9</u>
<b>Total</b>	<b><u>\$46.7</u></b>	<b><u>\$6.0</u></b>	<b><u>\$89.5</u></b>	<b><u>\$78.1</u></b>
After-tax total	<u>\$31.4</u>	<u>\$9.8</u>	<u>\$61.3</u>	<u>\$52.4</u>

Realized investment and other gains were up \$40.7 million in Q2 05 compared to Q2 04 due to gains in both the equity and fixed income portfolios compared to losses from rebalancing of the fixed income portfolio in 2004. Impairments were negligible in the second quarter of both 2005 and 2004.

Year-to-date realized investment and other gains were up \$11.4 million compared to 2004 due to stronger equity markets in 2005 generating somewhat higher gains on equities. There were slightly fewer gains on fixed income securities. Impairments for the six months ended June 30, 2005 and June 30, 2004, were negligible amounts of \$0.06 million and \$0.70 million, respectively.

## Corporate and Other

The following table presents the results of our corporate and other segment including intercompany eliminations which are primarily commissions and general expenses.

(in millions of dollars)	Three months ended		Six months ended	
	June 30		June 30	
	2005	2004	2005	2004
Investment income	\$ 4.6	\$2.2	\$ 7.2	\$ 4.1
Commission and advisory fees	<u>14.3</u>	<u>4.3</u>	<u>26.0</u>	<u>7.8</u>
Revenue	<u>18.9</u>	<u>6.5</u>	<u>33.2</u>	<u>11.9</u>
Commissions	(5.6)	1.5	(8.9)	6.2
General expenses	10.6	2.1	23.4	3.1
Interest on debt	<u>2.0</u>	<u>2.9</u>	<u>4.0</u>	<u>5.8</u>
Expenses	<u>7.0</u>	<u>6.5</u>	<u>18.5</u>	<u>15.1</u>
Income (loss) before income taxes	<b><u>\$11.9</u></b>	<b><u>\$0.0</u></b>	<b><u>\$14.7</u></b>	<b><u>\$(3.2)</u></b>

Income from corporate and other was higher by \$11.9 million in Q2 05 relative to Q2 04 and by \$17.9 million for YTD 05 compared to YTD 04. The increase is primarily due to the commission

income earned by Canada Brokerlink (obtained in the Allianz acquisition) which was \$9.1 million and \$16.5 million, respectively, for the three and six months ended June 30, 2005.

The increase in general expenses was principally due to Canada Brokerlink which incurred general expenses of \$9.7 million and \$22.1 million, respectively, in Q2 05 and YTD 05. On the other hand, commission expenses were lower due to non recurring commissions related to the 2001 Portfolio Purchase which amounted to \$4.0 million in Q2 04 and \$7.9 million for YTD 04. Furthermore, the higher commissions earned by our brokerages, principally Canada Brokerlink, from our P&C companies were eliminated in corporate and other and thereby reduced commission expenses.

## **BALANCE SHEET ANALYSIS**

### ***Premiums and Other Receivables***

Premiums written are either billed to brokers or directly to policyholders. Premium receivables from brokers and policyholders were \$174.0 million and \$1,111.9 million, respectively, as at June 30, 2005, and \$163.8 million and \$1,076.0 million, respectively, as at December 31, 2004.

Other receivables consist of amounts due from the Facility Association and other industry pools, other insurers, and other which were \$208.2 million, \$31.3 million and \$56.3 million, respectively, as at June 30, 2005, and \$202.8 million, \$137.3 million and \$62.5 million, respectively, as at December 31, 2004.

### ***Investments***

Cash and cash equivalents and investments increased by \$282.0 million, or 4.4%, to \$6.6 billion at June 30, 2005, compared to December 31, 2004. This increase was due to the higher premiums written, interim settlement of \$116.9 million related to the 2001 Portfolio Purchase and receipt of \$123.9 million of investment funds transferred from Facility Association which offset first quarter payment of tax balances for the 2004 taxation year and the payment of profit commissions to brokers and incentive bonuses to employees. The funds transferred from Facility Association are not required to meet the association's short term needs but will eventually be returned to the association to enable it to pay the policyholder claims to which these funds relate.

The following table sets forth our cash and invested assets as at June 30, 2005 and December 31, 2004.

	As at June 30, 2005			As at December 31, 2004		
	Book value ("BV")	% of BV	Fair value	BV	% of BV	Fair value
(in millions of dollars)						
Cash and cash equivalents	\$ 391.9	5.9%	\$ 391.9	\$ 357.2	5.6%	\$ 357.2
Short-term notes	168.6	2.5%	168.6	-	-	-
Fixed income securities <sup>(1)</sup>	3,582.3	53.9%	3,759.4	3,685.1	57.9%	3,776.5
Commercial mortgages	76.5	1.1%	81.5	78.7	1.2%	83.3
Preferred shares	1,188.6	17.9%	1,239.6	1,069.6	16.8%	1,136.3
Common shares <sup>(1)</sup>	1,069.5	16.1%	1,143.5	997.7	15.7%	1,077.2
Other investments	172.2	2.6%	172.2	179.3	2.8%	179.3
<b>Total investments &amp; cash</b>	<b><u>\$6,649.6</u></b>	<b><u>100.0%</u></b>	<b><u>\$6,956.7</u></b>	<b><u>\$6,367.6</u></b>	<b><u>100.0%</u></b>	<b><u>\$6,609.8</u></b>

(1) Fixed income and common shares include seed capital investment in affiliated mutual funds, with a book value of \$155.0 million as at June 30, 2005 and as at December 31, 2004.

Our investment objectives remain consistent with the information presented in the 2004 Annual Report. The weighted average ratings of our fixed income and preferred share portfolios as at June 30, 2005 were "AA" and "P2", respectively, by either Standard & Poor's ("S&P") or Dominion Bond Rating Services. Included in the fixed income and preferred share portfolios at June 30, 2005, were approximately \$33.7 million of securities with a rating below investment grade or not rated compared to \$42.9 million as at December 31, 2004. Our exposure to debt private placements and secured commercial mortgages remains relatively minor.

Other investments consisted of loans to brokers with a book value of \$158.8 million as at June 30, 2005 compared to \$156.3 million as at December 31, 2004, equity investments in brokers with a book value of \$13.2 million as at June 30, 2005 compared to \$13.4 million as at December 31, 2004 and other commercial loans with a book value of \$0.2 million as at June 30, 2005 compared to \$9.6 million as at December 31, 2004.

### ***Unpaid claims and adjustment expenses***

Unpaid claims and adjustment expenses, net of reinsurers' share ("claim liabilities") at June 30, 2005 decreased by \$14.0 million or 0.4% during the first six months of 2005. The decrease occurred in the second quarter as a result of the favourable claim experience combined with the incurred but not reported ("IBNR") adjustment resulting from the quarterly actuarial reserve evaluation.

The favourable reserve development is largely the result of the cost containment of auto reforms which appear to be sustainable as well as continuing low levels of claims frequency, both being more favourable than what was anticipated. The quarterly evaluation of our best estimates of claim liabilities, while remaining conservative, has taken into account the emergence of this favourable development for both current and prior accident years.

The favourable development of all prior accident years during the first half of 2005 was \$108.3 million, or 3.8%, (\$43.6 million in the second quarter) with every accident year being favourable except for 2001 and accident years prior to 1996. This development came mainly from automobile in the amount of \$103.1 million, including the positive development of class action suits during the first quarter and the favourable impact of the quarterly IBNR evaluation of which \$27.5 million related to prior accident years. Most of the remaining favourable development came from commercial general liability in the amount of \$10.3 million.

The following table, which excludes Allianz, shows the development of the claim liabilities for the ten most recent accident years, with the estimated amount of subsequent development for each accident year shown by year up to June 30, 2005. 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 claim liabilities required for claims still open or claims still unreported. We have experienced favourable development for accident years 2004, 2003, 1998, 1997, 1996, 1995 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.

	Accident Year									
	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995 and prior
<b>Reserve Originally Estimated</b>	\$ 904.3	\$ 814.9	\$ 711.9	\$ 655.3	\$ 607.7	\$ 557.2	\$ 531.2	\$ 547.2	\$ 493.4	\$ 1,073.5
<b>Reserve re-estimated as of (1)</b>										
One year later	865.9	750.0	721.6	716.8	607.7	550.7	507.6	423.9	447.3	986.9
Two years later		697.9	721.4	730.6	648.4	578.1	508.9	407.1	441.5	981.5
Three years later			714.4	729.6	664.2	607.4	504.2	421.5	445.2	1,015.5
Four years later				732.0	657.4	613.0	518.8	421.9	435.4	992.4
Five years later					651.4	614.4	520.1	420.9	433.8	961.6
Six years later						609.9	517.5	426.3	432.0	953.4
Seven years later							514.6	424.6	417.9	955.9
Eight years later								423.8	414.4	968.5
Nine years later									413.7	977.2
Ten years later										978.8
<b>Cumulative deficiency (redundancy)</b>	(38.4) (4.3)%	(116.9) (14.4)%	2.5 0.4%	76.7 11.7%	43.7 7.2%	52.8 9.5%	(16.7) (3.1)%	(123.4) (22.5)%	(79.8) (16.2)%	(94.7) (8.8)%
<b>Development during 2005</b>	(38.4) (4.3)%	(52.1) (6.4)%	(7.0) (1.0)%	2.5 0.4%	(5.9) (1.0)%	(4.5) (0.8)%	(2.9) (0.6)%	(0.8) (0.1)%	(0.8) (0.2)%	1.6 0.2%

(1) The last diagonal is estimated as at June 30, 2005.

For the claim liabilities relating to the Allianz acquisition, the table below shows the development only from December 2004, given that the acquisition took place late in 2004. On \$680.5 million of claim liabilities as at December 31, 2004, we experienced \$26.7 million of favourable development for the first six months of 2005 of which \$23.0 million relates to the second quarter. Similar to our own experience, this came mainly from automobile with a favourable development of \$22.0 million.

	Accident Year										
	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995 and prior	
<b>Reserve as of December 2004</b>	\$ 213.4	\$ 158.4	\$ 126.7	\$ 73.6	\$ 47.8	\$ 29.9	\$ 16.9	\$ 10.0	\$ 3.6	\$ 0.2	
<b>Reserve re-estimated as of June 2005</b>	196.2	148.5	127.0	73.8	48.4	30.1	17.2	10.2	2.6	0.0	
<b>Development during 2005</b>	(17.2) (8.1)%	(9.9) (6.3)%	0.2 0.2%	0.1 0.2%	0.6 1.2%	0.3 0.9%	0.3 2.1%	0.2 1.7%	(1.1) (28.9)%	(0.2) (98.7)%	

Claim 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 claim liabilities. Discount rates and provisions for adverse deviation were set on a basis consistent with those used at year-end 2004.

In the tables above, the claim liabilities used are those used in the financial statements and therefore are discounted and include a provision for adverse deviations while the cumulative payments do not include either. The net impact of the discount and the provision for adverse deviation makes the booked claim liabilities slightly higher than undiscounted best estimates (by approximately 1.4% at year-end 2004).

### **Reinsurance**

Policy liabilities including unearned premiums and unpaid claims and adjustment expenses ceded to reinsurers were \$738.9 million and \$687.2 million, respectively, as at June 30, 2005 and December 31, 2004. As part of the Allianz transaction relating to the AGR Business, there were assumed and ceded policy liabilities of \$13.8 million and \$465.2 million, respectively, for 2005 and \$18.9 million and \$508.6 million, respectively, for 2004. These liabilities will be transferred to the Canadian branch of AGR in 2005 when regulatory approval is obtained. ING Re, our primary reinsurer, represented 16% and 17%, respectively, of the remaining ceded policy liabilities as at June 30, 2005 and December 31, 2004. 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 have immaterial amounts of reinsurance payable to us.

In 2005, for multi-risk events or catastrophes, our retention is \$17.5 million with a reinsurance coverage limit of \$1.2 billion. We also retain 10% of the exposure between \$25.0 million and \$600.0 million. For 2004, our retention was \$5.0 million with a coverage limit of \$1.2 billion and 10% retention of the exposure between \$12.5 million and \$600.0 million.

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. The company was the assigned beneficiary of such trust accounts from unlicensed reinsurers totalling \$456.9 million and \$458.7 million, respectively, as at June 30, 2005 and December 31, 2004. These amounts included \$47.5 million and \$ 56.0 million, respectively, as at June 30, 2005 and December 31, 2004 from an affiliated reinsurer. Trust accounts were held in support of policy liabilities of \$331.0 million as at June 30, 2005 and \$349.5 million as at December 31, 2004, and can be accessed if these reinsurers are unable to meet their obligations.

### **Share Capital**

As of August 11, 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.

Under the Company's 2005 Long-term Incentive Plan, certain employees are awarded performance units (one performance unit equals one company common share) as a portion of their compensation. The number of performance units that will eventually vest at the end of the three-year performance cycle is contingent upon the Company's three-year average return on equity relative to that of the Canadian P&C insurance industry. All shares awarded under this plan will be purchased in the market. The Company re-estimates the number of performance units that are expected to vest at each reporting period. That estimate was 180,250 units at June 30, 2005.

### **Liquidity and Capital Resources**

Both our liquidity and our capital base remain strong. Net cash provided by operations was \$402.9 million for Q2 05 compared to \$221.0 million for Q2 04 due to higher income and changes in operating assets and liabilities. Year-to-date operations provided cash of \$278.5 million for YTD 05 compared to \$970.6 million for YTD 04 which is primarily explained by the commutation of the quota-share treaty on January 1, 2004 which recorded \$665.0 million of cash from operations. In addition, we have an uncommitted revolving credit facility with a Canadian chartered bank of \$50 million, none of which was drawn at August 11, 2005. We are not currently planning to make any significant capital expenditures.

During the first quarter of 2005, we used the proceeds from the shares issued pursuant to the exercise of the over-allotment option to repay a \$129.2 million promissory note payable to an affiliate, thereby reducing our debt outstanding to \$127 million. As at June 30, 2005, the Company was adequately capitalized to support the growth in premium volume of our insurance subsidiaries. Our insurance subsidiaries have capital of \$698.2 million in excess of the minimum supervisory target of 150%, as calculated under the Minimum Capital Test ("MCT") at June 30, 2005, compared to \$442.3 million at December 31, 2004. Based on the dividend restrictions imposed by applicable insurance laws, subject to MCT limitations, the total amount of dividends available for payment from our subsidiaries during 2005 is \$327.1 million plus any 2005 earnings.

The Board of Directors of the Company declared quarterly cash dividends of 16.25 cents per common share for a total amount of \$43.5 million, which was paid on March 31, 2005 and June 30, 2005.

During the quarter we received a S&P financial strength and long-term counterparty credit ratings of A+ for our P&C subsidiaries plus A.M. Best reaffirmed our financial strength rating of A+ and raised the ratings of Allianz and Trafalgar to A+ as well.

### **Transactions with Related Parties**

We have ongoing transactions with related parties. These transactions consist principally of management and advisory services rendered by ING Groep and affiliated companies, reinsurance by an affiliated company and financing by ING Groep. We also render advisory and administrative services to our affiliated companies. These transactions are carried out in the normal course of operations and are measured at the exchange amount. It is management's belief that such exchange amounts approximate fair value. Notes 1 and 5 to the accompanying consolidated interim financial statements provide additional information on related party transactions.

### **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 risk, equity market fluctuation risk, credit risk, liquidity risk, and to a lesser extent, foreign currency risk and derivative risk. These risks are described on pages 38 to 40 of our 2004 Annual Report and were essentially unchanged year to date.

### **Critical Accounting Estimates and Assumptions**

Our critical accounting estimates and assumptions were disclosed on pages 41 to 43 of our 2004 Annual Report. There are no new critical accounting estimates or assumptions to disclose beyond those included in our annual 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, goodwill, income taxes and certain other assets. As more information becomes known, these estimates and assumptions may be updated for new information and could therefore change and impact future results.

### **Changes in Accounting Policies including Initial Adoption**

As a result of the adoption of a Long-term Incentive Plan for employees and a Deferred Stock Unit Plan for independent Directors, the Company has adopted, effective January 1, 2005, the recommendations of the Canadian Institute of Chartered Accountants' Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments", which sets a fair value based method of accounting for all stock-based compensation. Notes 1 and 10 to our consolidated interim financial statements describe the accounting for our stock-based compensation plans.

## **Recent Developments**

On July 31, 2005, we closed the sale of the renewal rights of ING Insurance's \$13 million commercial marine insurance to Royal & SunAlliance. Under the terms of the agreement, ING sold the renewal rights to all of ING Insurance's commercial ocean marine insurance as well as the yacht programs underwritten through several Managing General Agencies. ING Insurance will however continue to provide insurance to individual yacht owners as part of their home or cottage coverage.

On August 5, 2005, ING Investment Management Inc., a subsidiary of ING Canada closed the merger of 13 ING mutual funds into AGF Funds and the acquisition of the ING Canadian Dividend Income Fund by AGF Funds Inc. ING Investment Management had already closed five international funds in July 2005. As a result of these transactions, ING Investment Management will no longer offer its own mutual funds. However, it will act as the exclusive sub-advisor for the AGF Dividend Income Fund.

While both transactions are not material, they will allow ING Canada to continue to further concentrate its activities on its core insurance markets.

As part of the investigations launched by the Autorité des marchés financiers ("AMF"), the regulatory agency that supervises the financial services sector in Province of Quebec, we, along with over 70 businesses – insurers, related companies and brokerages – have received formal requests during the second quarter to provide information to the AMF. The investigations focus primarily on transparency and the disclosure to consumers of business ties between insurers and brokers, the appearance of conflicts of interest and commercial practices. We are cooperating with the AMF in its investigations.

## **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; our ability to accurately predict future claims frequency, 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 limited trading history of 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.